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PROSPECTS FOR IMPROVED AMERICAN-SOVIET TRADE

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE, PRODUCTIVITY, AND ECONOMIC GROWTH

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

FIRST SESSION

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PROSPECTS FOR IMPROVED AMERICAN-SOVIET TRADE

WEDNESDAY, OCTOBER 9, 1985

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON TRADE, PRODUCTIVITY, AND
ECONOMIC GROWTH OF THE
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:05 p.m., in room 2359, Rayburn House Office Building, Hon. Chalmers P. Wylie (member of the committee) presiding.

Present: Representatives Wylie, Mitchell, and Scheuer; and Senator D'Amato.

Also present: John Starrels, professional staff member; and Charles H. Bradford, assistant director.

OPENING STATEMENT OF REPRESENTATIVE WYLIE, PRESIDING

Representative WYLIE. The meeting of the subcommittee will please come to order. We are here today to explore the possibilities for a realistic expansion of American-Soviet trade. This is an issue which allows little room for illusion.

During the 1970's, when the subject of détente was so popular here in Washington, the United States and its Western allies briefly entertained the idea that commercial negotiations with Moscow might in turn provide a basis for more ambitious political accommodations. We know better today.

As of late, however, the President has revived the idea that it is in our national interest to pursue sensible accommodations with the Soviet Union. For me, this is a message which America will convey when President Reagan meets with the new Soviet leader, Mikhail Gorbachev, a little more than a month from now in Geneva.

An expansion of American-Soviet trade can be seen as an integral part of that United States effort. With this goal in mind, Secretary of Commerce Malcolm Baldrige traveled to Moscow this past May, where he cohosted the eighth session of the Joint U.S.-U.S.S.R. Commercial Commission. This was the third such meeting of this body in 7 years. And these renewed political contacts have in turn encouraged American suppliers to probe potential commercial opportunities in the Soviet market. These are encouraging developments.

The pitfalls associated with American-Soviet trade are well known to us—not the least of which is the illusion that bilateral commercial ties can somehow be divorced from larger aspects of

United States-Soviet relations. They cannot be as long as we recognize these limitations, however, I believe it benefits the United States to expand commercial ties with the Soviet Union in the nonmilitary, nonstrategic goods arena.

Why? For one fundamental reason; namely, expanded U.S. exports. Although United States-Soviet trade remains modest—it totaled but $3.8 billion in 1984—a number of America's most competitive firms have generated employment at home through sales in the Soviet Union.

In light of America's persistent balance-of-trade deficits, I believe we in the Congress should do all we can to promote peaceful U.S. exports to foreign markets. One such market, of course, is the Soviet Union.

The question to be addressed this afternoon is how America can best go about taking advantage of this commercial opportunity. To accomplish that task, I take great pleasure in introducing our three distinguished guests, who, between them, share a wealth of practical experience in negotiating commercial arrangements with the Soviets. We will begin with Secretary of Commerce Malcolm Baldrige, to be followed by Donald M. Kendall, the chairman and chief executive officer of PepsiCo, Inc., and Dwayne O. Andreas, chairman and CEO of Archer Daniels Midland Co.

I am pleased to be joined by the Congressman from Maryland, Parren Mitchell. Thank you for coming and helping at this hearing. Did you have anything you want to say at this moment?

Representative MITCHELL. No; I have not prepared a formal opening statement. I just would suggest that while we have 8.5 million people unemployed in this country who are seeking work and can't find work, obviously, we need to pursue all avenues to increase our trade and certainly with the Soviet Union and many other countries to the extent and degree that we feel, hopefully, we can begin to chip away at that 8.5 million, so I am delighted to see you again, Mr. Secretary.

Representative WYLIE. Thank you, Congressman Mitchell. And with that, Secretary Baldrige, your entire statement will, of course, be incorporated into the record and be made a part of it. You may proceed at your pleasure.

STATEMENT OF HON. MALCOLM BALDRIGE, SECRETARY, DEPARTMENT OF COMMERCE

Secretary BALDRIGE. Well, Mr. Wylie, Mr. Mitchell, our trade relations with the Soviet Union can't be viewed separately from our overall relations and our trade with the Soviet Union can't be considered normal.

We don't give the U.S.S.R. MFN treatment or official credits. We maintain unilateral and multilateral export controls for national security purposes, and we maintain some foreign policy export controls.

Within our overall relations, however, our trade policy is to support expansion of peaceful trade. One of the President's major objectives in United States-Soviet relations is to establish a better working relationship between the two countries, and the President

believes that an expansion of peaceful trade should be a part of that effort.

And by peaceful trade I mean nonstrategic trade that benefits both parties and is consistent with our existing laws and policies. I'm not talking about strategic goods or technology.

As part of the President's program, I went to Moscow this May to cochair the first meeting of the Joint U.S.-U.S.S.R. Commercial Commission in 7 years. The U.S. goals were to reestablish a mechanism for resolving commercial problems, which we really haven't had for those 7 years; to explore opportunities for increasing trade; and to improve market access for U.S. firms.

I told the Soviet cochairman, Foreign Trade Minister Patolichev, that we viewed our trade situation as having three categories:

The first is strategic or dual-use technology. We just weren't interested in discussing any changes in our policies on that.

The second is MFN, most-favored-nation treatment. Some parts of trade can be greatly helped by MFN treatment through financing and lower tariff barriers. But I explained that there couldn't be any progress toward MFN for the Soviet Union in the absence of improvement in Soviet emigration. We remain firm in this position.

The third is the area where trade could be expanded now—within the existing laws and policies of both countries. And I told the Soviets this is where we should concentrate our efforts, and that we should take a pragmatic approach toward agreeing on steps to expand trade in this area.

That's what we did. We had a successful commission meeting in which both sides agreed on practical steps to expand trade where that was possible, and we reestablished a structure for regular review and resolution of bilateral trade problems.

This was reinforced by a 2-hour meeting I had with the General Secretary, Mr. Gorbachev—a far longer meeting than had been planned. He confirmed Soviet interest in expanding trade relations with the United States.

A major achievement, I believe, was getting Soviet agreement to improve market access for American firms. In recent years, many American companies have been denied the opportunity to bid for business in the U.S.S.R. That's the ultimate trade barrier.

Minister Patolichev agreed to tell Soviet foreign trade organizations to provide bid invitations to American firms, to give U.S. companies access to purchasing officials, and to consider American company proposals on their economic merits.

We felt that was a significant step.

In a letter to foreign trade organizations, Mr. Patolichev also stated the interest of the Soviet Government in developing more business with United States companies in areas that both sides agreed were in their mutual interest.

The Soviets agreed to eliminate their ban on United States company promotions—sales promotions—at the United States Commercial Office in Moscow. They agreed also to form a projects subcommittee to help boost United States-Soviet business, and to reconstitute a business facilitation subcommittee to improve business working conditions. Some of those things may sound mundane but, liter-

ally, they were holding up the ability of our companies to do business in Moscow—telephone hookups, and things of that nature.

For our part, we agreed to encourage United States firms to explore business opportunities in the Soviet Union. We announced that the Department of Commerce would reinstitute a trade promotion program and that the administration would seek legislation removing a 1951 embargo on the imports of seven types of furskins from the Soviet Union.

This legislation has been introduced in the House as H.R. 3019, and I hope it will receive favorable consideration by the Congress. Enactment of this legislation would demonstrate that we are willing to remove obstacles to a productive relationship when that is in our mutual interest. And it would really have little or no effect upon the U.S. fur industry.

For one thing, about 80 percent of the American furskins of the type addressed by the bill are now exported. Also, the embargo has never applied to fur coats and other garments; the Soviets have been selling these here for years. In addition, the Soviets have not been able to increase their own fur production.

American firms in Moscow now report that, for the first time in years, they are seeing a positive attitude in Moscow and our companies are getting new business and providing new jobs as a result.

Soviet orders for United States machinery and equipment are now running at more than twice the rate of last year. They stand at about $120 million. Last year, they were about $70 million—and they could reach $200 million by yearend.

While this gain will not eliminate our trade deficit—some joker must have written this line—it could create up to 5,000 jobs in American manufacturing firms, that is no joke. We need every one we can get, as Mr. Mitchell said.

I do not attribute all of this gain to better trade relations. Overall Soviet purchases of Western machinery are up, and some United States gain should have been expected. But the United States share of Soviet business is rising as a percentage and I think that's very significant.

The task now is to take advantage of the improved business climate. We see good potential for U.S. companies in areas where there are sound reasons to proceed, such as food processing, agribusiness, mining and forestry equipment, building materials, medical equipment—and I suppose I should say the soft drink area—and other clearly nonstrategic areas.

The Department of Commerce is doing its part by beginning a series of company exhibits, trade fair participations, sales missions, and other promotions in Moscow to help United States companies compete against European and Japanese firms.

So, when you look at the process, I think from this year's likely total of less than $3 billion for our exports, those exports could rise to perhaps $5 billion within a few years if circumstances are favorable. But full realization of our trade potential will be possible only with an improvement in overall relations and, of course, that includes human rights.

I think a limiting factor is that, while the U.S.S.R. is the world's second largest economy, it's really not a major trading nation. Its imports from the West are about $30 billion per year. That makes

its import market about the size of Switzerland's when you think about it.

Soviet import growth is going to be held back also by its difficulties in expanding exports, because they have to earn foreign exchange, just like everyone else does.

Thus, Mr. Chairman, while we can and should work to expand our bilateral trade in nonstrategic areas because it's in our national interest, there are limits to what can be practicably achieved. But growth in trade can create needed jobs, and that is important for us to remember.

It can also help in the achievement of the President's goal of a better overall working relationship with the Soviet Union.

Thank you, Mr. Chairman. I'll be glad to take on any questions.

[The prepared statement of Secretary Baldrige, together with an attachment, follows:]

PREPARED STATEMENT OF HON. MALCOLM BALDRIGE

Mr. Chairman: I am pleased to be with you this afternoon to discuss U.S.-Soviet trade and the results of my official discussions in Moscow.

U.S. exports to the Soviet Union last year were $3.3 billion, making the U.S.S.R. our 17th largest market. While these exports are less than 2% of our total exports worldwide, they contribute significantly to individual companies and industries in profits and jobs, particularly to our agricultural industry. Our imports from the Soviet Union are small, only $600 million last year, with the result being a large surplus in our favor. Our $2.7 billion surplus with the U.S.S.R. last year, in fact, was the second largest surplus we had with any country.

U.S. Trade Policy Toward the U.S.S.R

Our trade relations with the Soviet Union cannot be viewed separately from our overall relations, and our trade with the Soviet Union is not in any sense "normal." We do not extend MFN treatment or official credits to the Soviet Union. We maintain unilateral and multilateral export controls for national security purposes, and we maintain some foreign policy export controls.

Within our overall relations, however, our trade policy is one of supporting the expansion of peaceful trade. In January 1984 President Reagan laid out three major objectives for U.S.-Soviet relations: 1) to reduce, and eventually eliminate, the threat and use of force in solving international disputes; 2) to reduce arms stockpiles; and 3) to establish a better working relationship between the two countries. The President decided that expansion of peaceful trade which benefits both parties can and should be a part of our effort to build a better working relationship with the Soviet Union.

By "peaceful trade" we mean non-strategic trade that is consistent with our existing laws and policies. We are not talking about strategic goods or technology. These are proscribed by U.S. export controls and the multilateral controls which we maintain along with our allies.

The Administration has taken several steps to seek an improvement in the bilateral trade relationship. In June of last year the President agreed to a ten-year extension of the U.S.-U.S.S.R. Long-Term Agreement on Economic, Industrial, and Technical Cooperation. In January 1985 we held a meeting of the bilateral working group on trade authorized under that long-term agreement. And finally, we agreed to a meeting of the cabinet-level Joint U.S.-U.S.S.R. Commercial Commission (the JCC), a group which was formed in 1972, but which had not met since 1978.

Joint Commercial Commission Meeting

On May 20-21 I co-chaired the Joint Commercial Commission meeting in Moscow, along with Soviet Foreign Trade Minister Nikolai Patolichev. The U.S. goals in that meeting were to reestablish a mechanism for resolving commercial and economic problems, to explore opportunities for expanding peaceful trade, to improve market access for U.S. companies in the Soviet Union, and to solve some trade problems where that was possible.

In the meetings with Minister Patolichev, I suggested that we try to agree on actions which we could take now to expand our

non-strategic trade as well as to consider areas where progress might require policy or legislative changes by either side. I explained to the Soviets that we viewed bilateral trade as divided into three categories:

The first category is that of strategic or dual-use technology. I explained that here there was no possibility of a change in U.S. policy. We are not interested in discussing any change in our strategic trade controls for the sake of economic gain.

The second category consists of areas where expansion of trade would require changes in policy or legislation by the Soviet Union, the United States or both. The major issues in this category are Most-Favored-Nation tariff treatment (MFN) for Soviet goods and access to U.S. official export credits. These issues are linked to emigration by the Jackson-Vanik amendment to the Trade Act of 1974. I stressed that the position of the Administration and the American people in this area remained unchanged, and there will not be progress on MFN or credits in the absence of improvement in emigration.

The third category is the area where trade could be expanded now, within the existing laws, regulations, and policies of both countries. I stressed to the Soviets our belief that both sides should take a pragmatic approach of looking for steps that could be taken to improve that trade. We suggested that the two sides agree on steps to expand trade here.

I made it plain that we were interested in seeing market access restraints removed by the U.S.S.R. so that U.S. companies had the opportunity to sell non-strategic goods and services to the Soviet Union in competition with other Western suppliers. In recent years, many American companies had felt that they were being denied the opportunity even to bid on projects in the Soviet Union. We listed many sectors and pointed to a number of projects already under discussion by American firms and Soviet foreign trade organizations which could go forward.

Accomplishments of the Joint Commercial Commission

The JCC meeting was a success. We were able to conduct the meetings in a business-like manner, we were able to discuss our disagreements frankly, and we were able to reach agreements that should improve bilateral trade -- without, I might add, having any effect on our national security or undercutting our concerns about Soviet human rights practices.

I think the most important accomplishment of the meeting was that both sides agreed that they wanted to expand trade where that was possible now, and that a clear signal to this effect was given to businessmen and trade executives on both sides. Also, it is important that Soviet Foreign Trade Minister

Patolichev and I succeeded in reestablishing a structure for regular high-level review and resolution of bilateral trade problems.

The importance which both governments place on peaceful trade was confirmed in my meeting with General Secretary Gorbachev. That meeting lasted more than two hours -- far longer than had been planned. We discussed several aspects of the overall U.S.-Soviet relationship, but the meeting focused on trade and it was clear that the General Secretary wanted to see bilateral trade expand where it could.

Minister Patolichev and I decided on several specific steps that should lead to an increase in bilateral trade. Most significantly, we obtained a commitment from the Soviets to provide our firms with fair access to their market. Obviously, this is a basic condition for increasing trade.

Minister Patolichev agreed to provide direct guidance to Soviet foreign trade organizations to provide bid invitations to all interested U.S. firms, to provide American companies with access to appropriate Soviet officials, and to consider American company proposals on their economic merits. Minister Patolichev provided this guidance in an unprecedented letter to all Soviet Foreign Trade Organizations, in which he also stated the interest of the Soviet Government in developing more

business with the United States in areas that both countries agreed were in their mutual interest.

For our part, I agreed that we would provide U.S. business with the results of the Joint Commercial Commission and encourage American firms to explore trading opportunities in the Soviet Union. I did that in an open letter to the U.S. business community in the June 10 issue of the Department's official magazine, Business America -- a copy of which is attached at the end of my statement along with a copy of the "Agreed Report" of the Commission.

Minister Patolichev and I also agreed on several other steps that should lead to an increase in trade, including the following:

- The Soviet Union lifted a ban on U.S. company market promotions at the U.S. Commercial Office in Moscow. The Department of Commerce in turn announced that it would reinstate an official trade promotion program in the U.S.S.R.

- A projects subcommittee was formed which will meet periodically to follow up on U.S. company proposals and help bring them to conclusion.

- o A business facilitation committee was reconstituted to help solve on-the-spot problems of operating sales offices.

- o U.S. and Soviet maritime officials will meet later this year to begin discussions on a new maritime agreement.

Eliminating the Furskin Embargo

In consideration of the Soviet commitment to improve conditions for our firms, I announced that the Administration would propose legislation removing a 34-year-old embargo on U.S. imports of seven types of Soviet furskins. This measure has since been introduced in the House as H.R. 3019.

This modest, but concrete, step to remove a long-standing irritant in our trading relationship has considerable symbolic importance. Removal of the ban will serve as a demonstration of our willingness to remove obstacles to a more productive bilateral relationship when that is in the interest of both countries.

Elimination of this embargo is definitely in the economic interest of the United States. Analysis by Commerce Department staff indicates that lifting the ban would have little or no

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effect on the U.S. fur industry. About 80 percent of all relevant U.S. furskin production is exported outside the United States and would not be affected at all by the removal of the import embargo.

The potential for increased furskin imports is small. The American furskin industry is competitive worldwide. The Soviet fur industry is mature and production has not been increasing in recent years, and the Soviet share of world fur trade has been falling. Additionally, the U.S. embargo, which dates back to the Korean War, has never covered fur coats and other garments made from Soviet skins. These have always been able to enter the United States and compete with U.S. and other foreign-made garments.

The Current Trading Environment

The negligible economic cost of eliminating the furskin embargo is outweighed by far by the economic gains to the United States which result from the Soviet steps to provide us with greater market access. The environment for trade has improved as a result of our talks in Moscow. American firms report a more responsive attitude on the part of Soviet purchasing officials. Soviet interest in American products has risen.

U.S. companies report that in sharp contrast to the past situation, their proposals are being welcomed. They are not being told that political factors rule them out of consideration.

Most significantly, business is up. Soviet orders for machinery and equipment from the United States are now running at more than twice the rate of last year. They stand at around $120 million and could reach $200 million by year-end, compared to about $70 million for all of last year. That total of new orders, incidentally, will create around 5000 new jobs in American manufacturing firms.

Western Europe continues to be by far the primary Western supplier of equipment to the Soviet Union, accounting for about 80 percent of all such orders. I note, however, that so far this year, U.S. firms are signing a larger dollar volume of orders in the U.S.S.R. than Japanese firms.

I do not attribute all of this sales increase to the improvement in trade relations. Overall Soviet orders of machinery and equipment from the West have risen significantly above the unusually low levels of the last two years, and some gain in our sales should therefore have been expected. But I

believe it is significant that the U.S. share of Soviet business, a share which had been falling for about five years, is up. In the absence of improved trade relations, our expectation would have been for a decline in share.

The task now is to take advantage of this improved environment and use it to conclude more new business. Many more possible projects are now being discussed by American firms and Soviet trade organizations. If they can be completed, our exports will expand. I wish to remind the Committee that we are talking about non-strategic trade, exports that will not affect Soviet military capabilities, and exports that are available to the Soviets from our competitors.

We are talking about projects and equipment in the food processing and agribusiness industries, earthmoving equipment, mining and forestry equipment, pollution control equipment, irrigation equipment, agricultural chemicals, building materials, pulp and paper equipment, medical equipment and supplies, irrigation equipment, and a broad range of consumer goods production facilities. These are some of the areas where U.S. companies are highly competitive, where the equipment and technologies are clearly non-strategic, and where there is strong Soviet demand.

Next Steps

Working to identify and help bring major projects to completion is the logical next step in the process to build more business for U.S. firms in areas where we believe trade is in our national interest as well as being of interest to the U.S.S.R. We agreed with the Soviets at the Joint Commercial Commission to meet periodically to review project discussions and negotiations in order to help bring them to completion. The first meeting will take place here in Washington soon.

In September representatives of the Department of Commerce and the Department of State at our Embassy in Moscow held a first session of what will be periodic meetings on business facilitation questions. We want to improve operating conditions in Moscow for our businessmen which have an important effect on their ability to conclude new business.

The Department of Commerce is also beginning an active trade promotion program to help our firms expand their presence in the Soviet market. This month we will host the first of several already-planned single company exhibits at our Commercial Office in Moscow. Depending upon Soviet attendance at such events, we expect many more U.S. companies to use our Commercial Office to exhibit their products.

In the spring we will organize one, and possibly two, sales missions for six to eight firms at the U.S. Commercial Office as well. During the breaks between events, the Department of Commerce is making preparations to have a video/catalog program -- an inexpensive way for new-to-market firms to make their products known to the Soviet market. By next fall we intend to put together a U.S. pavilion of twenty or more companies for a Soviet international trade exhibit in Moscow.

Prospects

We believe that prospects are promising for an increase in trade with the Soviet Union in coming years. We do not, however, view the Soviet market as being the growth market many in the 1970s believed it would be. While the Soviet Union is the world's second-largest economy, it not a major trading nation. It imports about $30 billion annually from the West -- an amount which makes its import market for Western products about the same size as Switzerland's. For individual companies and industries added business with the U.S.S.R. can provide a significant boost to business and employment, but overall the Soviet market is likely to remain a modest one for U.S. manufactures.

We expect U.S. exports to the Soviet Union to total about $2.6 billion in 1985. Non-agricultural exports should reach about $600 million, a 25 percent increase over last year. Under an optimistic scenario, I believe U.S. shipments could reach as much as $5 billion within a few years. This, however, would require trade relations to improve more than they have so far. Here I would like to stress that we have consistently told the Soviets that without an improvement in relations, including in the area of human rights, a full realization of our trade potential is not possible.

The outlook for increasing exports by U.S. firms is strongly affected by several characteristics of the Soviet market, including trends in imports from Western countries. Those imports have remained at about the same level for several years. While it is possible that General Secretary Gorbachev's desire to accelerate Soviet economic growth will lead to significant growth of trade as well, it is still too early to tell.

The Soviet Union has run a hard currency trade surplus of more than $4 billion for several years and has enough reserves to increase purchases from the United States and other Western countries in the near-term. Over the longer-term there is not much prospect of continued large Western export increases to

the Soviet Union. This is because the Soviets must pay for their imports by earning foreign exchange through their exports -- and the chances for large increases in Soviet exports are not promising.

Soviet exports consist primarily of raw materials and fuels for which world demand is likely to grow slowly. In addition, there are indications that exports of oil, the most important Soviet hard currency earner, may decline somewhat this year.

Finally, I should note that American companies will continue to face aggressive competition from Western Europe, Japan, and newly industrialized countries. Western competitors may win some contracts as a result of campaigns waged by their governments to rectify large trade deficits with the U.S.S.R. Some competitors will also be aided by official export credits, which are not available to U.S. exporters, and the still-high value of the dollar.

Conclusion

In conclusion, the U.S. Government supports expansion of peaceful trade with the Soviet Union. We are following up on successful trade talks with the Soviet Union with a program to translate improved market access for our firms in Moscow into new expanded business in non-strategic areas where we believe this would be to the advantage of the United States as well as the Soviet Union. We have made some gains in improving the outlook for trade, but a major improvement in the trade relationship cannot take place without parallel improvements in Soviet emigration practices. Even with major gains, bilateral trade -- while it would expand -- would not reach the point at which we would become each other's major trading partners.

Thank you, Mr. Chairman.

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

June 10, 1985

A Message To The American Business Community

The President is seeking to build a more constructive working relationship with the Soviet Union, and he favors an expansion of peaceful trade with the U.S.S.R. as part of this effort. After a seven-year hiatus, the United States agreed to a Joint Commercial Commission meeting this year.

I recently returned from Moscow, where along with Soviet Foreign Trade Minister Patolichev, I co-chaired the Eighth Session of the Joint U.S.-U.S.S.R. Commercial Commission. The Commission, which was established in 1972 to help expand two-way trade and economic relations, has not met since 1978.

At the Commission meeting, the Soviet government agreed to take steps which will improve the access for U.S. firms to the U.S.S.R. market. Trade Minister Patolichev will write to all Soviet Foreign Trade Organizations to inform them of the Soviet government's desire to:

- see commercial cooperation with the United States increase by providing bid inquiries to interested U.S. firms;
- consider U.S. company proposals fully on their economic merits;
- provide U.S. firms with access to Soviet trade and purchasing officials; and
- give them the Agreed Report of the Commission, which goes into more detail.

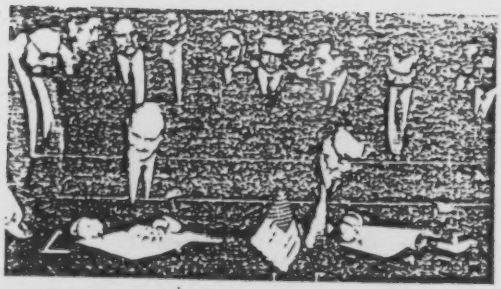
I announced at the Commission meeting that upon my return to Washington I would provide the U.S. business community with a copy of the Agreed Report, and would encourage U.S. business to explore trading opportunities in the U.S.S.R. The Agreed Report follows my letter, and I urge you to read it.

The Soviet market is never an easy one, but I believe that U.S. firms trying to sell in the U.S.S.R. will find the business climate there improved. Let me remind all U.S. companies that any products or know-how to be exported to the U.S.S.R. must be consistent with our export control regulations. The Department of Commerce is ready to assist firms in complying with these regulations as well as aiding with their marketing efforts.

Malcolm Baldrige

Secretary of Commerce

Agreed Report of the Eighth Session of the Joint U.S.-U.S.S.R. Commercial Commission



Secretary Baldrige and Soviet Minister of Foreign Trade N.S. Patolichev sign the Agreed Report of the Eighth Session of the Joint U.S.-U.S.S.R. Commercial Commission.

The eighth session of the Joint U.S.-U.S.S.R. Commercial Commission, established by a joint communique in May 1972, was held in Moscow on May 20-21, 1985. N.S. Patolichev, Minister of Foreign Trade of the U.S.S.R., headed the Soviet delegation and presided over the session. The U.S. delegation was headed by Malcolm Baldrige, Secretary of the United States Department of Commerce.

During the work of the Commission, Secretary Baldrige was received by the Secretary General of the Central Committee of the CPSU, Mr. M. S. Gorbachev, and had talks with Ministers A. A. Yezevskiy and V. P. Lein.

In opening the session, Minister N.S. Patolichev said that definite prospects exist for developing equitable and mutually beneficial Soviet-American trade. Secretary Baldrige stated that the United States wants to develop a more constructive working relationship with the U.S.S.R. The U.S. side is of the opinion that an expansion of trade can be part of such a relationship and believes that both sides should take concrete steps to expand trade where that is now possible.

The U.S. side stated its belief that while useful steps to improve trade could be taken now, a fundamental change in trade relations could not take place without parallel improvements in other aspects of the bilateral relationship.

The Soviet side stated that it is opposed to tying trade to aspects of bilateral relations which in its view have no bearing on trade. It believes that the development of trade between the two countries can contribute to the improvement of bilateral relations as a whole.

The Commission adopted the following agenda:

1. Status and Prospects for Trade
2. Report of the Working Group of Experts
3. Trade Expansion Including Projects
4. Business Facilitation

Status and Prospects for Trade

Assessing the status of U.S.-Soviet trade, the Commission noted that although bilateral trade grew sharply in 1984 to $3.8 billion (3.1 billion rubles), the range of products traded continued to be limited.

The Commission agreed that an expansion in trade of mutual interest was desirable and possible and that it was the policy of each side to take steps to support such expansion.

The Commission noted that the potential for bilateral trade was not being fully utilized: Soviet exports to the United States remained at a low level, and U.S. manufactured goods exports were continuing to fall.

Both sides agreed that the main task of the Commission is to work toward elimination of obstacles to mutually-beneficial trade. They intend to provide assistance and support to the business communities of both countries in identifying areas of possible cooperation and concrete projects, and in restoring a climate of mutual confidence.

The Commission also discussed the current state of maritime and civil aviation relations. It agreed that progress toward the resolution of outstanding differences in these areas would contribute to further development of bilateral economic and trade relations. Both sides welcomed the resumption of bilateral exchanges of views on maritime and civil aviation questions and hoped that these would achieve concrete results.

Report of the Working Group of Experts

The Commission approved the reports of the heads of delegations to the fourth meeting of the Working Group of Experts held in Moscow Jan. 8-9, 1985, in accordance with the provisions of the long-term Agreement on Facilitation of Economic, Industrial and Technical Cooperation, which was extended for 10 years on June 29, 1984.

The Commission noted that it was the Working Group's frank exchange of views on the obstacles to trade, the steps each side sought for their resolution, and the prospects for expanding trade in various sectors, which laid the groundwork for a meeting of the Joint Commercial Commission.

The Commission agreed that the fifth meeting of the Experts Working Group would take place in Washington, D.C., in 1986, at a time to be agreed upon between the Cochairmen of the Commission before the end of 1985.

Trade Expansion, Including Projects

To aid trade expansion and the conclusion of mutually beneficial contracts, both sides agreed to assist in identifying appropriate sectors and projects which would be of interest both to U.S. firms and Soviet organizations.

The Commission analyzed the course of negotiations between U.S. firms and Soviet foreign trade organizations on a number of commercial projects and noted the interest of both sides in bringing them to a positive conclusion.

The Soviet side noted the absence of progress on questions of normalizing the conditions of mutual trade and providing export credits for the sale of American machinery and equipment to the U.S.S.R. It stated that U.S. firms had lost the reputation of being reliable suppliers in the Soviet market, and this had resulted in a reduction of orders for supplying machinery and equipment. The Soviet side believes that restoring this reputation is important for normalizing trade, and it will welcome appropriate steps by the Administration, Congress and the U.S. business community.

The U.S. side expressed its continued recognition of the importance of maintaining the reliability of our supplier relationship. It cited the Administration's support for new legislation which would provide a high degree of contract certainty to American firms and their foreign trade partners. With regard to normalizing conditions for trade, the U.S. side noted that official credits and Most-Favored-Nation (MFN) treatment for Soviet goods were dependent upon progress in other aspects of the bilateral relationship. The U.S. side stated that it hoped to see such progress soon.

The Commission believes that the process of improving conditions for trade expansion can be started by a gradual elimination of obstacles, where that is now possible. This would demonstrate to the business communities of both countries the intention of each side to contribute to strengthening mutually-beneficial economic cooperation.

In this spirit of cooperation, the U.S. side announced that it would introduce legislation in the Congress to eliminate the 34-year-old import embargo on seven types of furskins from the Soviet Union. It also stated that, to the extent consistent with present trade laws and the federal-state relationships in the United States, the U.S. side would attempt to see that Soviet Foreign Trade Organizations were not discriminated against in their efforts to sell in the United States.

In this same spirit of cooperation, the Soviet side stated that it would inform Soviet Foreign Trade Organizations of the Soviet side's interest in expanding trade with the United States, and that Soviet Foreign Trade Organizations would address bid inquiries to interested U.S. firms. It also stated that the Soviet Foreign Trade Organizations would consider U.S. proposals fully on their economic merits, taking into account foreign trade laws and regulations existing in the United States.

The U.S. side stated it was pleased that an increasing number of U.S. firms had received invitations to bid from Soviet firms since January 1985 and that several contracts totaling over $400 million had been signed. The U.S. side expressed its interest in having American firms serve as suppliers for appropriate Soviet projects under the upcoming 12th Five-Year Plan.

The Commission discussed the U.S. analysis of over 30 projects which the Ministry of Foreign Trade had indicated as having potential for U.S.-Soviet cooperation. The U.S. side also identified over 20 other projects it believed to be of mutual interest. The U.S. side pointed out that most of the items related to these projects may currently be exported without a specific license and that, where required, a validated license would generally be approved for appropriate equipment associated with the projects listed.

In order to continue the efforts begun at this session of the Commission, both sides agreed to establish the practice of regular meetings between their representatives in Washington and Moscow for the specific purpose of attempting to identify and eliminate, where possible, obstacles to the completion of mutually-beneficial projects.

The Commission took note of the important role the U.S.-U.S.S.R. Trade and Economic Council (USTEC) has played in identifying areas for trade expansion and agreed that its efforts have been a useful starting point for concentrating attention on projects. The Commission agreed to continue to work closely with USTEC and to encourage it to develop additional detailed proposals.

Business Facilitation

The Commission noted the importance of working conditions for firms and organizations engaged in bilateral commerce, and discussed the problems currently faced by firms and organizations of each country.

In order to expand commercial contacts and assist in the identification of concrete business oppor-

tunities, the U.S. side announced that the U.S. Department of Commerce will initiate a modest program of export promotion events in the Soviet Union beginning in 1985. These events may include trade missions, sales seminars and mini-exhibits at the U.S. Commercial Office, as well as American participation in appropriate Soviet trade exhibits and fairs. The Soviet side agreed to furnish the necessary support for U.S. Government-supported events at the U.S. Commercial Office. These events will contribute to the development of trade and economic cooperation.

The Commission noted the importance of the business facilitation mechanism which had been utilized until 1980. Recognizing that business facilitation questions have accumulated since that time, both sides agreed to resume the practice of regular business facilitation meetings between their representatives in Moscow and in Washington.

Recognizing that the participation of small and medium-sized U.S. firms in bilateral trade requires special attention and assistance, the Commission asked the business facilitation group and the U.S.-Soviet Trade and Economic Council to consider possibilities on how to overcome the difficulties such firms encounter in trying to sell in the Soviet Union.

Summary of Results

Summing up the results of the present session, the Commission believes that mutually-beneficial trade can contribute to the development of more constructive relations between the two countries. It also recognizes the economic benefits of this trade and supports its expansion.

Both sides recognize that in order to enhance the role of trade, it is necessary to respect the interests of the other side. Each side will consider possible steps toward improving conditions for a more complete trade relationship and will consult with the other.

Both sides agree that there are possibilities for the expansion of mutually-beneficial trade and economic cooperation. Noting the positive results and anticipated further benefits from trade in agricultural products, the two sides will take steps to expand trade in those industrial goods and services identified as being of mutual interest.

These steps will include the removal of obstacles to trade expansion where possible and consistent with the laws and regulations of each country. Both sides welcome the efforts of firms and organizations to explore prospects for expanding trade. Each government will encourage officials and buyers to visit the trade exhibitions sponsored by the other.

The U.S. Government is interested in American companies serving as suppliers for appropriate Soviet projects under the upcoming 12th Five-Year Plan. The Soviet side states that interested U.S. firms will receive bid inquiries, will have full opportunity to participate in Soviet projects and purchases open to foreign participation, and will have access to Soviet trade and purchasing officials. Within U.S. law and practice, the U.S. side will use its best offices to prevent discrimination against Soviet Foreign Trade Organizations.

Each side intends to expand trade and economic cooperation in accordance with its own laws, national security interests, and market demands. Accordingly, both sides agree to concentrate their activities in areas where concern due to these reasons will be minimal.

The head of the U.S. delegation announced that he would publicize the contents of the Agreed Minutes in the official magazine of the Department of Commerce, along with a message encouraging U.S. businesses to explore trading opportunities in the U.S.S.R. and mentioning President Reagan's desire for a more constructive working relationship with the Soviet Union.

The head of the Soviet delegation announced that he would send a letter to the Soviet Foreign Trade Organizations enclosing the contents of the Agreed Minutes. He stated his letter would inform foreign trade organizations of the Soviet side's desire to: see commercial cooperation with the United States increase by providing bid inquiries to interested U.S. firms; consider U.S. proposals fully on their economic merit; and provide U.S. firms with access to Soviet trade and purchasing officials, always taking into account foreign trade laws and regulations existing in the United States.

On the Ninth Session of the Commission

The Commission decided to hold its next (ninth) session in Washington in 1986. The date and agenda will be agreed upon by the Chairman of the U.S. and U.S.S.R. sections of the Commission in accordance with its Terms of Reference and Rules of Procedure.

Done in Moscow, May 21, 1985, in two copies, each in the English and Russian languages, both texts being equally authentic.

Malcolm Baldrige
Head of the U.S. Delegation to the Eighth Session of the Joint U.S.-U.S.S.R. Commercial Commission

Nikolai S. Patolichev
Head of the Soviet Delegation to the Eighth Session of the Joint U.S.-U.S.S.R. Commercial Commission

Representative WYLIE. Thank you very much, Mr. Secretary, for an excellent statement, and I would think a very helpful one.

According to an October 3, 1985, piece in the Washington Post, the Soviet Union has reportedly failed to live up to an agreement with the United States to purchase minimum amounts of American grain for the 1984 contract year. The shortfall is apparently 1.1 million tons—and I'm going to ask the other witnesses the same question, so they might be listening.

What credence do you lend to this report and, if it is true—you can tell me if it isn't true, but if it is, would you be willing to speculate as to what might be behind the Soviet move here?

Secretary BALDRIGE. We are going to raise that question in meetings with the Soviets on grain later this month. Secretary Block will be in those grain consultations, which will be held in Washington. The Soviets did purchase a record—over 18 million metric tons—of grain during the 1984-85 market year, but most of that was corn. What they did was to greatly exceed their corn quota and fall about 1 million tons short on wheat.

Secretary Block was told during his recent trip to the Soviet Union that they would live up to their agreement, so that makes any shortfall that much more regrettable. And if you want an opinion on why they're having a shortfall, I think, from the world wheat market price point of view, they have come in lower now than the United States wheat and the Soviets can buy wheat cheaper. I can't say for sure that's the reason, but one would have to think of that. And I'm sure they will state this in their consultations.

Representative WYLIE. The purchase of wheat has been offset by purchases of corn; is that what you're saying? So the overall contract would be in the same neighborhood monetarily?

Secretary BALDRIGE. Well, I'd say that's what the Soviets would say. They actually have taken substantially more corn than they agreed to, but they haven't taken as much wheat. We don't view it in that light at all.

We view it as an agreement where, if you say you're going to take so many tons of corn as a minimum, that's your minimum, and if you say you're going to take so many bushels of wheat as a minimum, that's your minimum. And there's no tradeoff between them.

We haven't had that before, so we would be very concerned, if they did not live up to their agreement, because it was an agreement, and if we're going to trade together, those kinds of agreements ought to be held to.

Representative WYLIE. But as of the moment, you're not able to confirm or deny this report in the Washington Post? Am I reading you correctly?

Secretary BALDRIGE. I don't know whether those figures are official, but it's my definite impression that they are short a little over 1 million tons of wheat.

Representative WYLIE. That makes it a little bit more difficult, I think, from this Member's perspective, and again I'll have Mr. Kendall and Mr. Andreas comment on this later on, because they have been personally in the trade negotiations with the Soviet Union. But when you have a problem like that, after we have nego-

tiated the sale of wheat and the Soviets fail to live up to the agreement, apparently, it makes it a little bit more difficult to negotiate trade agreements in the future, doesn't it?

Secretary BALDRIGE. It certainly does. One of the basics for future negotiations is always the past record in history and the trust that comes out of it.

Representative WYLIE. Well, as I say, we'll get into that a little more later on.

Based on your discussions with the Soviet leaders, then, including Mr. Gorbachev, can you provide us with your view of their plans, or his plans, for expanding Soviet trade with the United States?

Secretary BALDRIGE. Yes, sir. I think it's clear from many different kinds of indications that the Soviets also want to stabilize and improve the working relationships that the U.S.S.R. has with the United States. It is not a one-sided feeling at all. The Trade Minister, Mr. Patolichev, in the meetings we had—and you know, the Russians or the Soviets are very good negotiators, barterers—made a very forthcoming step, when he agreed to write a letter to all of his trade organizations and ask them to consider U.S. firms on economic merits alone, to make sure that they were on the bid list, so they get a chance, things of that nature, to facilitate trade.

The Soviets would never agree with what I am about to say—that some American firms have been kept out of the bid list for the 5-year contracts, and so forth. But suffice it to say, some of our American firms felt they had been, and so this was a definite step forward.

The whole idea of getting telephone lines hooked up right, of getting good service, the ability to facilitate your business dealings when you're over there, was also a definite move. You have to start with the rather fundamental ways of doing business in order to build up more in the future.

So from those indications, plus my visit with General Secretary Gorbachev, who also stated very plainly that he would like to see a trade increase with the United States, I think it's clear that they also have the same desire we do, both for the sake of trade and jobs and also for the sake of improving the overall relationship, as one part of the step involved.

Representative WYLIE. Thank you. Congressman Mitchell.

Representative MITCHELL. Thank you, Congressman Wylie. Some of my friends have been to the Soviet Union during the last 5 years. They have been pleasantly struck by the amount of American goods in the major cities of Moscow.

Is it possible that those goods are getting into the Soviet Union through trade with other nations—Romania, for example—that have the most-favored-nation status? Is there a system by means of which the satellite nations resell American products to the Soviet Union, or is there some kind of underground system that is used? And if that is true, then, as we look at expanded trade possibilities, would that suggest that, for example, Romania would be buying less because the Soviets are buying more directly?

Do I make my question clear?

Secretary BALDRIGE. Yes; you make it very clear.

You would have to divide that into two kinds of trade, Congressman Mitchell. One is on either foreign policy or national security controlled exports to, let's say, a country like Romania.

We have reasonably good knowledge—and we use our resources to check up on any foreign policy controlled trade—strategic trade—where Romania might be allowed to take advantage of that. But we wouldn't want anything to get transshipped. We have ways of checking on that, and while we are all sure that there is some unavoidable leakage, we don't see a great amount of that going on.

We are sure that in some of the Soviet bloc countries, some of the items that they buy from some of our trading partners in Cocom do find their way into the Soviet Union. But we try and be very careful about that. I don't say we are perfect, but we are very much aware of the problem.

Representative MITCHELL. Mr. Secretary, I wasn't thinking so much in terms of strategic stuff, but rather American jeans and other consumer items.

Secretary BALDRIGE. I'd say there's not a very large amount of that. I think consumer items are very dear, both by the time they get through the distribution in Romania, and I don't know of any large amount of consumer goods exports that have gone to the Soviets through the Eastern bloc and used there.

Representative MITCHELL. No further questions. Thank you.

Representative WYLIE. Thank you very much, Congressman Mitchell.

Now we have Senator D'Amato, if he has some questions. Senator D'Amato from New York.

Senator D'AMATO. Thank you very much, Congressman Wylie.

First of all, let me commend you for holding this hearing, and it is always good to see our Secretary, who is extraordinarily gifted and has a very difficult task, and Mr. Kendall, from our State.

I am going to have to get back over to the Senate floor, so I guess we spare you some questions that I would like to ask, Mr. Secretary.

Let me follow up on something that you referred to in Congressman Mitchell's question with respect to goods that find their way into the Soviet Union. How do we distinguish between strategic and nonstrategic commercial technology? What are we doing in our attempts to keep strategic commercial technology from flowing into the Soviet Union?

And let me really complicate it by giving you a triple header, third part.

How does that affect our trading relationship for the negotiations you undertake? On the one hand, we say there are strategic commercial technological devices that are off the list, and yet we are going to expand in other areas. Doesn't that certainly make the job much more difficult?

Secretary BALDRIGE. Well, all the manufactured goods, to go there, have to get some kind of a license. Now it might be a license with a presumption of approval or a presumption of denial. The Department of Defense gets a chance to look at all of them, so that's one obvious check. We have foreign policy controls on exports to the Kama River and Zil truck plants, and then we have

policy controls on oil and gas exploration and production equipment and the technical data that goes with it.

We also have national security controls on all—it's a very complicated list. It would be the Cocom list, plus some items that get into the level of computer, things of that nature.

Senator D'AMATO. Do we work together with our allies in connection with that, Mr. Secretary?

Secretary BALDRIGE. Yes.

Senator D'AMATO. How responsive have they been to our concerns?

Secretary BALDRIGE. That's the whole point, I think, Senator, that in unity, there is strength. If we get agreement for Cocom to diligently pursue the more technically sophisticated, the more advanced technology kinds of items, they do a good job on that, we're better off than if we had half-hearted approval of a much longer list and got into a lot of little things that technology passed by 5 years ago. That is one of our faults. We don't have enough cutoffs on the list. We have too many items in there that don't mean that much. But we are continually trying to get our Cocom allies' approval to shorten up the list and have them work even more diligently to keep any of the higher kinds of technology—the dual-use items—away from the Soviets.

We are having increasingly good cooperation.

Senator D'AMATO. That was my next question. We are doing better in that area?

Secretary BALDRIGE. We are definitely doing better. I would say, with 4 years or 5 years of, let's say, practice behind us, in how you meet these problems, Cocom is doing better, our relations with the Europeans are doing better, and I would say that DOD and the Commerce Department are doing better in their ability to work it out.

Senator D'AMATO. Thank you very much, Mr. Secretary.

Congressman Wylie, I wonder if I might be able to impose on the committee and my colleague, Congressman Mitchell, and ask one other question?

It deals with the linkage of our concerns for human rights, slave labor, and trade.

How do we get our allies to believe that we are serious in these endeavors, when the question rightfully can be raised that we turn our heads away from the serious shortcomings of Soviet policy on human rights and slave labor? I understand, however, that with a particular degree of accuracy, it may be impossible for the CIA to say that a particular piece of wood, a wooden chess set or the like, was made at a particular slave labor camp, and identify the actual inmate who made it.

But we'd have to be naive to think that certain cases, involving significant amounts of slave labor haven't been employed. Yet it appears that while we say we abhor these practices, we do little, if anything, but use rhetoric.

Well, if we conduct ourselves in that manner, what would the French and the English and all of our allies say? They would say we're not really serious about this. Moreover, what signal do we send to the Soviets? I think they also believe we're really not seri-

ous. How do we address this situation? Are we in fact serious? If we are serious, shouldn't we be doing more?

Secretary BALDRIGE. Well, let's take the first part of your question.

Are we serious about emigration and human rights, and how do they know we're serious?

Senator, I know for a fact that up until a couple of months ago—I haven't checked since then, but I'm sure it's the same—Secretary Shultz never had one conversation with the Soviets without bringing up emigration.

I have not had one conversation with a Soviet official without bringing up emigration. Everybody that talks to them brings it up every time. It's to a point where they—I mean, you can argue the rights or wrongs of this, but they expect that, and it's like a very large burr under the saddle blanket, as far as they're concerned. They know exactly how we feel. They know exactly all about MFN and they know they're not going to get that until we see a change in emigration practices.

They feel—they have told me, and again, I'm not commenting on the propriety of this. I'm just saying how I think they feel, is that the United States has a gun at their head and a gun pointed at them, and they probably feel it's difficult to move in that kind of a situation.

But we have to work that out, and we will never give up that cause, because we emphasize it all the time. We're just as strong, and I think stronger in that regard than we were before, and the Soviets fully understand that.

Believe me, it's not a question of not bringing it up enough. I'm as sure of that as I'm sitting here. I understand it to the point of being extremely sensitive about it, and they're beginning to accuse us of human rights violations too. One example was, I was told, how can you talk about human rights in the Soviet Union, when your Government has bombed three square blocks or I guess three houses of black people in Philadelphia?

I said, you know, that was not the U.S. Government doing that. That was the black mayor, who was concerned about people he thought were going to create killings and death, and he may or may not have been ill advised—I don't know—but whatever, he tried to prevent it from spreading to other houses. That was not a U.S. Government act. But that is how sensitive they are, which means, I think we're doing our job in bringing up those human rights as strong as we can. I don't know how we could do it any more strongly.

Second, I think that in dealing with another government, if we ever leave—whether we like it or not—the rules of law, proof, things of that nature, we would be treading a very slippery slope.

On your slave labor point, we have had the Treasury Department make a full-scale investigation, as far as they could with their resources, which are plenty. They could not prove which product was made by slave labor. It went to the ITC. They had an investigation, and they could not prove it either.

Now if we're going to conduct international relations without a better basis than that, I think, perhaps (a) the evils caused thereby would be worse than what you're trying to correct, and (b) I

wouldn't know how to correct that slave labor problem, in the first place. I mean, how do you pick out the individual items, if you can't prove them? So then we'd have to say, all right, no trade, and I don't think that's what we want, either for United States jobs or better working relationship with the Soviet Union. Where we can try and work out these problems with them, we're in much better shape to do that by talking to them rather than just walking away from them.

Senator D'AMATO. Congressman Wylie, let me thank you for your patience. Let me also say that, at some future point, I'd certainly like to follow up on some of these avenues with the Secretary. Although I have a somewhat different point of view, I could suggest to you, Mr. Secretary, where I think we could do something legislatively in the area of slave labor. It really cries out for us to do more.

Let me not leave on that note without saying that, while under a most difficult and arduous circumstance, our Secretary, Malcolm Baldrige, has done an absolutely outstanding job, and he is to be commended. It's difficult building the consensus we need with our allies and with our trading partners. This consensus is so very important. If there is anyone who can do it, it's Secretary Mac Baldrige.

I just wish we had three or four more of him so we could fill out some of these other spots, and, of course, I'd like to send them right up close to the President. [Laughter.]

Because I think he's doing a heck of a fine job as chief of staff. Now I got him in real trouble. [Laughter.]

I just think he does a magnificent job in a very difficult area.

Secretary BALDRIGE. Thank you very much, Senator.

Representative WYLIE. Thank you very much, Senator D'Amato, and I would associate myself with those comments about the good Secretary, and I thank you very much for coming over. I know you have to go back for a vote on the debt ceiling in the Senate. Many of the Senators indicated they would try to be here, but I know they have to pay attention to that issue.

Now, Mr. Secretary, I was fortunate enough to be in the Soviet Union back in 1971. This is quite a while ago. I'd like to find an excuse or a reason to get back, but, at that time, we were talking about free trade, as you know, and there was a big push on to try to export our goods with Exim Bank financing and they were going to export goods to the United States with their Exim Bank, and so forth. And I had the privilege of visiting with Vladimir Allchimov, then president of the state bank, a very charming gentleman, and he later came to the United States to follow up on that.

During the course of the discussion, I made the comment that it's going to be difficult to trade with the Soviet Union when it's hard to establish a price. The day before we had come through Zurich, Switzerland, and the ruble was trading for 26 cents on the world market; and when we got to Moscow, we had to pay a dollar and 10 cents for our rubles.

And I indicated that to Mr. Alkhimov and he said, "Well, if you like our system, why don't you adopt it?" And that isn't really what I had in mind, of course. But how do you deal with that in

actual trade? And his answer to me was that they do it through bartering.

I guess I'd like your comment on that aspect of trade and then on what goods or services are the Soviets interested in bartering or selling to the United States?

At that time, we were talking about natural gas. But that was before the pipeline was built. We were discussing the possibility of the natural gas pipeline into Western Europe.

There are products that the Soviets are interested in selling us, that we could use? What is the bartering system we are going through, or do we establish our own price?

Secretary BALDRIGE. The question being what kinds of products would they like to sell?

Representative WYLIE. That's one. Then, do we do our dealings through bartering or, if we enter into a contract—and I guess we have one for wheat right now—I'm certain we don't use the Soviet price for rubles in buying American wheat.

Secretary BALDRIGE. You know, there's a lot of ways to get that done. I really, in this case, would bow to the expertise of the two gentlemen who are following me, because I have a great respect for people who are actually in the market doing it, you know, instead of having some fellow from the Government sit here and talk about a lot of theory.

I know what I think, but I think they're actually doing it and I hope you will ask them about it.

Representative WYLIE. I will.

Secretary BALDRIGE. In terms of products that the Soviets like or have been able to sell us, they are usually in the area of raw materials or materials that need a modest amount of processing, as opposed to machinery, consumer products, and other things.

Our top 10 imports last year from the Soviet Union were fuel oils, for example, about $170 million; ammonia, $150 to $160 million; palladium, about $60 million, and then it drops down to $15 or $10 million in crabs and sable furskins——

Representative WYLIE. Crabs, you say?

Secretary BALDRIGE. Crabs.

Representative MITCHELL. As a Marylander, I resent that. [Laughter.]

Representative WYLIE. I wondered where you were there.

Secretary BALDRIGE. Vodka, $10 million, and so forth.

So they're selling us more than raw materials. They're selling materials with some processing to them. I guess you'd call Vodka a processed raw material or partially processed.

Now, the sectors where we can sell to them under nonstrategic trade and create some American jobs are really quite a few—agribusiness, food processing, food storage, and food transportation. You have no idea how much grain rots because it isn't properly handled after it's harvested.

How do you make the food into edible and attractive packaging to be distributed and sold and kept fresh in the process? Irrigation, mining and construction equipment, forestry, pulp and paper, building materials, medical equipment and supplies, and some consumer goods.

Now, I don't think any of those are going to be a tremendous volume. Altogether, I think we could see our $3 billion perhaps go to $5 billion. But I think that it's also important to consider that this advance forward, if we did that, would be an aid in our overall relationship with the Soviet Union.

Representative WYLIE. How is the Soviet economy doing currently? I should know this, I suppose, but I understand their growth has been fairly sluggish in recent years.

Secretary BALDRIGE. Yes. It's been down in the 1- to 2-percent range for several years now. This year, they're hoping for a 3.8-percent increase in their GNP. They got off to a bit of a slow start in achieving that goal but they have come back. A lot of that depends on agriculture, of course, and they have come back in some of those areas. So I would say they have a chance to achieve that.

And, of course, the general secretary is putting on a major campaign to try to increase efficiency.

Representative WYLIE. That's the reason for the sluggishness in the economy, isn't it? Their distribution system hasn't been all that good. I think you touched on transportation a little earlier.

Secretary BALDRIGE. Yes. The level of decisionmaking, the feedback from the consumer, the user, how you handle inventories and stocks. It goes across the board.

Representative WYLIE. Is it likely that the Soviets will continue to—I think this is the proper wording—sacrifice private investment? When I use that wording, I know it isn't really like private investment as we know it—perhaps nonmilitary investment is better in order to maintain a military capability or their military spending?

Secretary BALDRIGE. Well, it's a difficult question to answer because you're looking at new leadership and someone who is paying very close attention to the regular economy. But the leadership there has to be supported to get in again by the military, so I'm sure you can say they will not be overlooked.

It's a question of the relative amount of attention paid to it, and so forth. The military in the past, as you know, the manufacturing part, defense production, has received the most attention. Some of the best people, the best kinds of machinery, and so forth are in this area, so they have been able to show productivity increases there that haven't been in their—we use the wording private sector, but their nondefense area.

The Soviets, I think, are going to have to face, or are facing a major decision for the future because, in the age of computerization, telecommunications, instant information flow, feedback and the way that affects factories and the distribution system, if you decide to keep to the technology of the fifties and sixties, you know, large-scale mills, large petrochemical complexes and quotas for various reasons, the technology gap will increase in the Soviet Union.

On the other hand, if you bring in computers, train kids to use them in school so they'll grow up being a part of the computer age, gradually develop a distribution and manufacturing system as we are doing, you may try to close the technology gap, but you will open up the information area.

It will be impossible to have the kind of secrecy that they have now, so I think that's a long-term decision. I'm not sure how it will work out.

Representative WYLIE. Congressman Mitchell.

Representative MITCHELL. I just have one other question. I made a statement at the beginning of the hearing in which I pointed out that any policy that might reduce unemployment in this country would be of great significance to me.

Based on your remarks, obviously, at this level of trade, we're not going to have any appreciable impact on our balance-of-trade deficit.

And then you went on further to say that the amount of our exports to the Soviet Union will still be relatively small. I guess I'm beginning to get the impression that this will not have much of an impact on reducing unemployment and that, therefore, this is essentially more of a political move than I thought it was.

Secretary BALDRIGE. No, sir, I would disagree. All my experience in business and all my experience in government tells me that there is no one magic wand you can wave and solve all our problems, whether they be unemployment or increasing employment. It's a combination of things.

It's like root, hog or die, all over the barnyard. It's no one thing that gets it done. It's a combination of things. Believe me, in my job, I do not look down my nose at an increase—and keeping the 3 billion dollars' worth of exports we have and increasing that by another $2 billion. This is what I mentioned. Just that increase, you usually figure about 25,000 jobs for every billion dollars' worth of exports. Of course, it depends on what it is, but using that as a rough guideline, that's 50,000 American jobs.

Now, I'll take those any time I can get them as long as it's legal and nonstrategic kinds of areas. We ought to get another 50,000 here, another 100,000 over here, but it's all part of the whole, and I view that as very important.

Representative MITCHELL. Well, I guess we really get into a problem of semantics because I said any appreciable impact, and you relate 50,000 jobs against 8.5 million unemployed and therefore it's a question of what is appreciable.

Secretary BALDRIGE. I also mentioned, Congressman, that, really, the total imports—and the reason I'm being conservative—we're trying to be conservative and cautious about the dollar figure, not to get anybody's hopes up too high—is that the Soviet Union imports about the same amount as Switzerland does.

It tries to make as much as it can to be self-sufficient. It does not want to import much as a result. There's only so much of that market there.

Representative MITCHELL. Thank you. That was my last question.

Representative WYLIE. Thank you very much, Congressman Mitchell. I think that, based on your testimony, we can say it's fair to state that what we need to do is to explore every possible opportunity to reduce our own balance-of-payments deficits and to reduce unemployment in this country. And even if we make some small gain in both those regards, vis-a-vis trade with the Soviet Union, it will be worth the effort.

I think that's where this Member is coming from.

Mr. Secretary, we appreciate very much your taking the time from your very busy schedule to come up here and be an outstanding and excellent witness on a very important subject.

Thank you very much.

Representative WYLIE. Mr. Kendall, would you please come and take a chair, and Mr. Andreas, do you want to join Mr. Kendall at the table.

Our next witness will be Mr. Donald M. Kendall, who is chairman of the board and CEO of PepsiCo, Inc., and he has just returned, I think, yesterday, from the Soviet Union.

Mr. KENDALL. Last night.

Representative WYLIE. So your testimony is very timely for this panel, and I know that you have been very successful in marketing your product in the Soviet Union. And I have here a bottle of Pepsi Cola that you presented me a little earlier made in the Soviet Union, and it has a Soviet label on it, and I know you will get into that and tell us how you did it. But we are glad to have you before our panel today, and the other gentleman at the table is Mr. Dwayne O. Andreas, who is chairman and CEO of Archer Daniels Midland Co., who is also the bearer of much expertise in the trade relations with the Soviet Union.

Mr. Kendall, we do have your prepared statement, and, if there is no objection, it will be included in its entirety.

So you may proceed at your own pleasure.

STATEMENT OF DONALD M. KENDALL, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, PEPSICO, INC.

Mr. KENDALL. Thank you very much, Congressman Wylie and Congressman Mitchell. I appreciate very much the opportunity of being here and expressing my views on how you might not only improve our American economy through expanded trade and also how we might improve our relations with the Soviet Union.

As you know, I have a keen interest in this critical issue. Our major divisions—Pepsi-Cola, Frito-Lay, Pizza Hut, and Taco Bell—are leaders in the consumer products market in the United States. This means that our company and 100,000 of our U.S. employees prosper when the economy is strong, and so we have a great interest in it.

At the same time, many PepsiCo jobs are tied to our operations around the world. Our products are enjoyed in 148 countries and territories, all of which explains our dedication to free trade.

Among our many business partners, I want to focus today on just one of them—the Soviet Union. I have been traveling to the Soviet Union for almost three decades. In fact, I returned from my latest trip, as you noticed, only last night, and I am more convinced than ever that expanded trade of nonstrategic goods with the Soviet Union serves the best interests of the United States.

I will summarize the prepared statement I have presented by focusing on just two of the items I cover.

First, that a restrictive trade policy is counterproductive. When trade is used as a tool of foreign policy against the Soviets, American workers and American taxpayers are the only ones who suffer.

Second, that increased United States-Soviet trade not only brings political and economic benefits to our country; it also builds bridges of understanding between our two peoples.

This is a historic moment for the two most powerful societies in the world. We have strong and competent leaders in both countries and we now are approaching a summit meeting that we hope will lead to a more stable and harmonious relationship between the two superpowers.

In my opinion, one of the best ways that the Congress and the business community can support the President in Geneva is to increase nonstrategic trade between the United States and the Soviet Union.

In fact, I believe that a free trade policy is also the best way to restore the competitiveness of American industry in the world market.

Unfortunately, some of us have taken the opposite approach and want to restrict trade, especially with Eastern bloc countries like the Soviet Union—and even trade involving what clearly are nonstrategic goods and services. As far as I am concerned, that's wrong. A restrictive trade policy is bad economics and is bad politics.

First, let's talk about economics. Our trade balance with the Soviet Union is one of the few that has been consistently favorable to our country. Last year, it was to our benefit by $2.7 billion, the second highest positive balance among any of our trading partners.

If we are serious about the trade deficit, then we ought to encourage trade with those countries like the Soviet Union that buy more from us than we buy from them.

Second, trade restrictions is bad politics because it creates roadblocks to improved Soviet and American diplomatic relations, and in my opinion, there is no chance of a lasting peace in the world without a new relationship between our two countries.

I believe that increased trade is an obvious way to build those bridges of understanding between our countries.

Given this objective, our trade policies toward the Soviet Union clearly have been a failure. We have tried to mix trade policy with foreign policy, and it simply hasn't worked.

We thought that by withholding capital goods and services from the Soviet Union, we could change their political behavior; but they simply bought what they needed from other countries. The only losers were American workers and American taxpayers. The list of misguided attempts to mix trade and politics is a very long one. And it's a bipartisan list of blunders. Embargoes don't work any better for Republicans than they work for the Democrats. That's because they don't work for anybody.

Let me give you a few examples that were put in by both parties. The Jackson-Vanik amendment tried to use trade preferences to prod the Soviet Union into increasing Jewish emigration. It failed. It failed miserably. In fact, since the passage of Jackson-Vanik, Jewish emigration has fallen significantly from 34,773 to only about 700 so far this year. We achieved nothing.

Let's look at the 1980 grain embargo. It produced no shortfalls in the Soviet Union, but it was a disaster to American farmers. The American share of the Soviet grain market dropped from nearly 80

percent before the embargo to less than 20 percent during the 1982-83 market year. The Soviets bought the grain they needed from other countries, and in the process created new competitors who, today, are challenging us in other markets as well.

We have been struggling ever since to get back the Soviet grain trade, and this year, we'll ship the Soviets a record 18.7 million metric tons. If we had retained our preembargo share of the Soviet market, American farmers would be selling nearly 41 million metric tons to them this year.

The embargo on soybeans 12 years ago, led Brazil to substantially increase its production. The embargo was a double whammy for American producers. We never recaptured our previous share of the Soviet soybean market and/or that of Japan. And Brazil today is a major competitor of ours in other markets around the world.

Talk to someone from Caterpillar Tractor Co. about export control on pipeline equipment. Caterpillar used to have 85 percent of the Soviet market. Thanks to the 1978 export controls, the Japanese now have that business. Caterpillar estimates that it lost $1.4 billion sales and 14,000 man-year jobs. All we did was transfer jobs and paychecks from Illinois to Japan.

The natural gas pipeline sanctions against the Soviet Union were equally foolish. U.S. firms lost as much as $1 billion in business and 30,000 to 40,000 American jobs. And there's no impact on the Soviet Union. The pipeline was finished on schedule.

Or take the embargo of petroleum equipment and technology. The U.S.S.R. is the world's largest oil producer, and, therefore, a major buyer of oil field equipment. Until 1978, U.S. companies had 25 percent of the Soviet market. Since then, we've lost more than $2 billion in sales to competitors in Japan and in Europe.

But there has been no change in either Soviet behavior or Soviet oil production. Currently, the Soviet Union is in the market for offshore drilling technology; however, they are negotiating in Norway, not in Texas.

I support export controls on military strategic goods and services to the Soviet Union.

In the case of nonstrategic trade, however, export ccntrols are ineffective and, in fact, self-defeating. They have no chance of achieving their political purpose and the only people we hurt are ourselves. The future of Soviet-American trade rests in our finding a long overdue way to put an end to the economic cold war.

I call for a moratorium by all Members of the Senate and the House and the administration on sanctions and embargoes against nonstrategic trade with the Soviet Union. Sanctions have never worked and never will work.

Up to now, our economic interests have been a yo-yo jerked up and down by foreign policy changes. It's time to stop that, in my opinion. Trade policy must not be a tool of foreign policy. Foreign policy must support our economic interests. I believe the normalization of trade with the Soviet Union calls for four key actions by the United States.

One, our foreign policy should support our economic interests, except when international crises demand economic warfare.

Two, we should, therefore, put an end to sanctions against nonstrategic trade.

Three, we should make economic and trade issues the prime basis for granting most-favored-nation status to the Soviet Union.

Four, we should grant credits to the Soviet Union to Export-Import Banks for the purchase of American products and strictly on the basis of economic risk.

With these changes in place, the American business community will recognize the Soviet Union as a new market, and it will mobilize to get its fair share of that market. That will allow us to increase trade, create new American jobs, and begin to reduce our growing trade deficit.

I believe the road to peace begins with the American and Soviet people getting to know each other better.

And my 30 years of experience with the Soviets tells me the route of increased trade is one of the places to begin building bridges of better understanding between our people.

I thank you for this invitation to appear before the subcommittee and will certainly answer any questions.

Representative WYLIE. Thank you very much, Mr. Kendall, for an excellent and powerful and thought-provoking statement.

[The prepared statement of Mr. Kendall follows:]

PREPARED STATEMENT OF DONALD M. KENDALL

INTRODUCTION

Good afternoon. I'm Donald M. Kendall, Chairman of the Board and Chief Executive Officer of PepsiCo, Inc. I appreciate this opportunity to present my views on ways to improve the performance of the American economy through expanded trade.

I have a keen interest in this critical issue. PepsiCo's 110,000 men and women make us the 11th largest private-sector employer in the country. Our major divisions -- Pepsi-Cola, Frito-Lay, Pizza Hut and Taco Bell -- are leaders in the consumer products market. This means our company and our employees prosper when the economy is strong and growing.

At the same time, many PepsiCo jobs in the United States are tied to our operations around the world. Last year we celebrated the 50th anniversary of our first foreign bottling plant. Today, our products are enjoyed in 148 countries and territories, which explains our dedication to free trade.

Among all our trading and business partners, I want to focus today on just one: the Soviet Union. I've been travelling to the Soviet Union for three decades. In fact, I returned from my latest trip just yesterday. And, I'm more convinced than ever that expanded trade of non-strategic goods with the Soviet Union serves the best interests of the United States.

In my testimony today, I'd like to discuss four subjects related to US-Soviet trade. First, the reasons why I believe the two countries are now at a critical juncture in our relationship. Second, PepsiCo's successful experience in the Soviet Union. Third, the failure of American trade policies toward the Soviet Union. And, finally, what I believe could be a new era of US-Soviet trade that would bring economic and political benefits to our country.

THE TURNING POINT

This is an historic moment for the two most powerful societies in the world. President Reagan has lived up to his commitment to restore the balance of power between the two nations. At the same time, a new generation of leaders has assumed power in the Soviet Union. They will set the tone for their nation for the rest of this century. This transition offers unusual risks and opportunities for us. With strong and confident leaders in both countries, we now are approaching a summit meeting that hopefully will lead to more stable and harmonious relations between the superpowers.

For those of us here today -- representatives from the Congress and from the business community -- I believe each of us has a role to play in helping to normalize relations between the United States and the Soviet Union.

And, in my opinion, one of the best ways for Congress and the business community to support the President at Geneva is to increase trade between the United States and the Soviet Union. Trade between our two nations stands at the same crossroads as political relations.

We all read the headlines last month claiming the United States had become a so-called "debtor nation" for the first time in 71 years.

We also learned that the trade deficit set a record of more than $100 billion last year. And the forecasts for 1985 all point to another record imbalance, in the range of $150 billion.

When a topic as obscure to most Americans as "the current account deficit as measured on a balance of payments basis" is the lead story on the evening news, then you know that everybody is finally paying attention. What to do about the problem, however, is another matter.

Most economists I've talked with relate many of our trade problems to large federal budget deficits and the declining competitiveness of some U.S. industries. If that's true, then the solutions are obvious.

The economic recovery program has resulted in significant improvements in our tax laws that will stimulate long-term economic growth. And I fully support bipartisan efforts to finish the job of tax reform.

The real problem is that the economic recovery program has not achieved the same level of success in dealing with spending. It seems as though each year a deficit-reduction plan is proposed by the Administration, and some variation of it is passed by Congress. But each year the total federal budget gets bigger. It was $678 billion in Fiscal Year 1981 and $852 billion during the Fiscal Year just concluded -- a 25 percent increase.

The kind of structural reform -- including entitlements -- that is needed to control federal spending simply hasn't occurred. And until it does, I'm afraid we're going to continue to see triple-digit annual deficits.

Apart from setting our economic house in order at home, I believe the best way to restore American competitiveness is a free-trade policy. Unfortunately, some have taken the oppoSite approach and want to restrict trade -- especially with Eastern Bloc countries like the Soviet Union.

Currently, there are controls that limit the export of hundreds of products and technologies to the Soviets. Some of these controls stretch the definition of "strategic goods" far beyond legitimate military concerns. For example, it's difficult to justify controls on U.S. oil drilling equipment when there are other international suppliers of these same items ready and willing to sell to the Soviets.

Other controls, such as embargoes on agricultural products, are simply efforts to soothe American political sensitivities to Soviet foreign policy actions.

As far as I'm concerned, that's wrong. A restrictive trade policy is bad economics, and it's bad politics.

First, let's talk about economics. Of the many nations we trade with, we had a positive trade balance with only a few last year. Our trade balance with the Soviet Union has consistently been favorable to our country. Last year it was to our benefit by $2.7 billion -- the highest positive balance of any country other than the Netherlands.

If we're serious about the trade deficit, then we ought to encourage trade with those countries that buy more from us than we buy from them.

Second, trade "restrictionism" is bad politics because it creates roadblocks to improved Soviet-American diplomatic relations. And, in my opinion, there is no chance for lasting peace in the world without a new relationship between the two countries.

Next month, President Reagan and Secretary Gorbachev will conduct the first US-USSR summit in six years. I hope the two leaders leave the harsh rhetoric at home when they go to Geneva, because there will never be a better time to begin the serious process of forging a new long-term relationship. We all should support their quest for a new, peaceful day by increasing friendly contacts between the two countries. And I believe that increased trade is an obvious way to build those bridges of understanding.

THE PEPSI GENERATION IN THE SOVIET UNION

My strong support of trade with the Soviet Union is based on my nearly 30 years of firsthand experience in dealing with the Soviets. But, when I look back over those three decades, I see a startling contrast. I see the success of PepsiCo on the one hand, and I see the failure of American trade policy on the other. Our company was moving along on a smooth track with steady growth in sales. But American trade in general was on a roller coaster to nowhere because of counterproductive sanctions and embargoes.

PepsiCo's commercial relationship with the Soviets dates back to 1959, when Premier Nikita Khrushchev and Vice President Richard Nixon visited the Pepsi-Cola exhibit prior to their famous kitchen debate.

Photographs of Khrushchev drinking several Pepsis made headlines all around the world. Nevertheless, it took me another 13 years of hard bargaining before we signed the historic agreement that led to the opening of the first Pepsi bottling plant in the Soviet Union.

Pepsi became the first American consumer product over there, and it remains today the most successful American consumer product widely available in the Soviet Union. It's the same big hit with young Soviets that it is with young Americans.

Today, Pepsi-Cola is bottled in 16 plants owned and operated by the Soviets. We sell them the soft drink concentrate, and they sell us Russian vodka for sale in the United States. Incidentally, the real winners in the vodka transaction are the U.S. Treasury and state and local governments. They receive far more in tariffs and taxes than either the Soviet Union or PepsiCo receives in profits on the vodka sale.

This past May we signed a new multi-year agreement with the Soviet Union that represents more than $2 billion in retail sales of Pepsi-Cola and Stolichnaya Russian vodka. Sales of Pepsi-Cola will nearly double through an expansion of the Russian production and distribution system.

My colleagues and I who built the first American consumer products business in the Soviet Union intend to do all we can to continue its growth. I believe we are doing far more than merely building a mutually beneficial business. We are building a bridge of human friendship and understanding between the people of our two countries.

From this brief account of PepsiCo's long history in the Soviet Union, two lessons stand out.

First, patience. Negotiations and business transactions with planned economies are far different than those we encounter elsewhere in the world. Often they take a lot of time. And that, of course, is why we need stability in our trade policies, so that American business managers can make the investments and commitments for the long term.

Second, American business must be prepared to accept non-traditional financial arrangements, such as countertrade. Our barter deal of Pepsi for vodka is an example. Sometimes that's the only way to open up new markets and gain a competitive edge.

THE FAILURE OF AMERICAN TRADE POLICY WITH THE SOVIET UNION

At this point, custom would suggest that I thank those in our government who contributed to our success in developing this important new foreign market. But when I think back over American trade policy toward the Soviet Union during the time I've been building PepsiCo's business over there, it's a wonder we got anything done at all.

The root of the problem is that for many years our government has tried to mix trade policy with foreign policy. It simply hasn't worked. We thought that by withholding certain goods and services from the Soviets, we could change their political behavior. But they simply bought what they needed from other countries. The only losers were American workers and American taxpayers.

The list of misguided attempts to mix trade and politics is a long one. And it's a bipartisan list of blunders. Embargoes don't work any better for Republicans than they do for Democrats. That's because they don't work for anybody. Here are a few examples:

o The Jackson-Vanik amendment to the Trade Reform Act of 1974 withholds trade preferences to nations failing to meet certain standards, including an open emigration policy.

The goal is commendable, but the results have been discouraging. In 1973 Jewish emigration from the Soviet Union totalled 34,700 people. Since the passage of Jackson-Vanik, emigration has fallen significantly. In fact, so far this year (through August) only 703 Jewish emigrants have been allowed to leave the Soviet Union. We achieved nothing.

o The 1980 grain embargo. The American share of the Soviet grain market dropped from nearly 80 percent before the embargo to less than 20 percent during the 1982-83 market year. That meant a loss of billions of dollars in sales for American farmers. But there was no shortfall in the Soviet Union. They bought the grain they needed from other countries. What made it even worse was that the Soviets found entirely new sources -- Argentina, for example -- and established long-term commitments and facilities. So the United States not only lost that business. We ended up with new competitors who are challenging us in other markets as well. And we've been struggling ever since to get the Soviet grain trade back.

U.S. grain shipments to the Soviet Union this year will reach a record 18.7 million metric tons. But our share of that expanding market is still only 37 percent, far below what it was when the embargo began. If we had retained our share of the Soviet market, American farmers would be selling nearly 41 million metric tons to them this year.

o The agricultural commodity restrictions of the 1970's. The embargo on soybeans 12 years ago led Brazil to substantially increase its production. The embargo was a double-whammy for American producers: we never recaptured our previous share of the Soviet soybean market, and Brazil today is a major competitor of ours in other markets around the world.

o Export controls on pipelaying equipment. Until 1978 the Caterpillar Tractor Company had 85 percent of the Soviet market. Three years later its share was down to 15 percent. And its major competitor, Komatsu of Japan, had captured most of that lost business. During the 1978-84 period, Caterpillar estimates that it lost $1.4 billion in sales to the Soviet Union and 14,000 man-years of labor. All we did was transfer jobs and paychecks from Illinois to Japan.

o The Soviet natural gas pipeline sanctions. U.S. firms lost as much as $1 billion in business and 30,000 to 40,000 American jobs. And what was the impact on the Soviet Union? None. There was no change in their behavior. And the pipeline was finished on schedule. All we accomplished was to reduce employment in our country and to infuriate our western European allies with what they felt were our arrogant attempts to force them to comply with the embargo.

As a further irony, The New York Times recently pointed out that the Soviet pipeline may actually benefit the United States by keeping downward pressure on OPEC prices.

o The embargo on petroleum equipment and technology. Russia is the world's largest oil producer, and therefore a major buyer of oil field equipment. Until 1978 U.S. companies had 25 percent of the Soviet market. Since then, we've lost more than $2 billion in sales to companies in Japan and Europe. But there has been no change in either Soviet behavior or oil production. Currently, the Soviet Union is in the market for offshore drilling technology. However, they are negotiating in Norway, not in Texas.

These losses are compounded by our poor reputation as an unreliable supplier in an increasing number of countries. One U.S. aerospace manufacturer says it lost $1 billion in Middle East sales because potential customers believe our export controls make doing business with a U.S. firm risky. As a result, a growing number of foreign customers are now requiring U.S. aircraft companies to guarantee export licenses.

I support export controls on military strategic goods and services to the Soviet Union. In the case of non-strategic trade, however, export controls are ineffective and, in fact, counterproductive. They have no chance of achieving their political purpose. And the only people we hurt are ourselves.

It is quite clear to me, and I hope it is also clear to you, that the American trade policy toward the Soviets over the past two decades is a failed policy. As we move toward a new understanding in the political field, we also must forge a new, and more effective, trade policy.

The future of American-Soviet trade rests on our finding a long overdue way to put an end to the Cold War as it relates to economic issues. I call for a moratorium -- by all members of the Senate and the House and the Administration -- on sanctions and embargoes against non-strategic trade with the Soviet Union. Sanctions have never worked, and never will work.

Up to now, our economic interests have been a yo-yo jerked up and down by foreign policy changes. It's time to stop that. Trade policy must not be a tool of foreign policy. Foreign policy must support our economic interests.

A NEW AMERICAN TRADE POLICY

It seems to me that our domestic economic program provides the starting point for a new trade policy. Our domestic economic program is based on less regulation, more reliance on the private sector, an end to continual policy changes, and lower taxes to encourage greater long-term investment. I believe these are the ingredients for increased American trade, as well.

As part of this, we should normalize the conditions of mutual trade with the Soviet Union.

And I believe normalization of trade with the Soviet Union calls for four key actions by the United States:

1. We should separate our trade policy from our foreign policy.

2. We should, therefore, put an end to sanctions against non-strategic trade.

3. We should make economic and trade issues the sole basis for granting Most Favored Nation status to the Soviet Union.

4. We should grant credits to the Soviets through the Export-Import Bank for the purchase of American products strictly on the basis of economic risk. The way it is now, American manufacturing companies are at a disadvantage against their European and Japanese competitors because our government grants only meager financial credits to the Soviet Union.

With these changes in place, the American business community will recognize the Soviet Union as a great new market, and it will mobilize to get its fair share of that market. That will allow us to increase trade, create new American jobs, and begin to reduce our growing trade deficit.

Already, there are encouraging signs:

o Commerce Secretary Baldrige led the U.S. delegation to the Joint Commercial Commission in May. It was the first high-level meeting on U.S.-Soviet trade since 1978.

o Agriculture Secretary Block just returned from a mission to Moscow, further strengthening agreements for purchases of U.S. grain.

o And the Congress, in enacting the new Export Administration Act, restricted the use of embargoes as a political weapon.

Better relations with the Soviet Union, including increased trade, has received strong support from leaders of both Houses of Congress. Representative Tom Foley made an important trip to Moscow two years ago. This year Congressional delegations led by Speaker O'Neill and Senate Minority Leader Byrd met with the new Soviet leadership, including Mr. Gorbachev.

Expanded trade with the Soviet Union is vital to our interests. However, there may be an even more important reason for moving to the new policies I have discussed today. If we can resolve our trading problems with the Soviets, that should provide encouragement that we also can solve our trade problems with the other countries.

Let me explain. The Soviet and the American people have long been suspicious of each other. Soviet trade regulations are complicated, and delays can be discouraging. But we at PepsiCo have learned to deal with them successfully. In my experience, the Russians are tough. Dealing with them calls for tough, creative and innovative bargaining. But I've found that once they strike a deal, they stick by it.

There are still better reasons to encourage greater trade between the world's two great powers. I recently spoke at the opening of the newest Pepsi-Cola bottling plant in the Soviet Union. In my remarks to our business associates, friends, and guests there, I made this statement:

"The American and Soviet peoples share a greatness of industry and accomplishment. We both have endured hardships to achieve positions of world power. In return for these hardships, I believe the Soviet and American people are now united in demanding a lasting peace from their governments.

"The summit meeting this fall offers the hope of a new era of peaceful relations. We all have worked together to achieve success in this business relationship. I also hope that our cooperation over these many years demonstrates that the political differences between our governments need only be symptoms of the past, and not barriers to future cooperation."

Finally, Mr. Chairman, I have a more personal reason for working toward better relations between these two great powers. My two teenage sons are as patriotic as any Americans. They would not hesitate a moment to defend their country. But, with all my heart, I hope they never have to do that. They are the ones who really have provided the incentive for me to help build bridges of understanding between the Soviet Union and the United States.

I believe the road to peace begins with the American and Soviet people getting to know each other better. And my 30 years of experience with the Soviets tells me that the route of increased trade is one of the places to begin building bridges of better understanding.

Thank you for your invitation to appear before the Committee. I will be pleased to answer your questions.

Representative WYLIE. We are in a vote situation on the floor, so I am going to recess the subcommittee for about 10 minutes and go vote and be back and see if I can round up a couple more members to come and hear you, because I think this is important and something that all of the members would be interested in.

So with that, we'll recess for approximately 10 minutes.

[A 10-minute recess was taken.]

Representative WYLIE. The subcommittee will again come to order, please. Now I'd like to hear from Mr. Dwayne O. Andreas, chairman of the board and chief executive officer of Archer Daniels Midland Co.

Mr. Andreas, your entire prepared statement will be made a part of the record, and you may proceed to summarize in your own way.

STATEMENT OF DWAYNE O. ANDREAS, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, ARCHER DANIELS MIDLAND CO.

Mr. ANDREAS. Thank you. I'm going to summarize my prepared statement, which will mean I will omit a good deal of it, but I'm glad that you will use all of it in the record.

First, I want to thank you, Mr. Chairman, for the opportunity to appear here and I hope that I can make a contribution to the thought on this subject.

In addition to my duties as CEO of Archer Daniels Midland Co., I want to say an affiliate of ours doing business in Germany does about 5 billion dollars' worth of business, of which a very substantial part is in Eastern Europe and the Soviet Union, and we have there as our partners 11 farmers' cooperatives, representing about 1,700,000 farmers, so we have a little different point of view on the agribusiness than some companies might have because of the nature of our ownership.

I am also the U.S. Chairman of the U.S.-U.S.S.R. Trade and Economic Council, which has brought me into contact with a cross section of American businessmen who have acquainted me with the problems as well as the prospects that they encounter in doing business in the Soviet Union.

The Council is a binational organization organized by Don Kendall, I think, in 1972, with the sponsorship of President Nixon and then Secretary of the Treasury, George Shultz.

It consists of 240 American companies and 125 Soviet foreign trade enterprises, our counterparts in the Soviet Union.

We have offices in New York and Moscow and we are in constant touch with the Soviet business people daily.

My first visit to the Soviet Union was in 1952, over 30 years ago, and I have returned probably a dozen times in subsequent years. I met last December with the current leader of the Soviet Union, General Secretary Gorbachev. Just before he assumed his post as General Secretary, I had extensive conversations for more than an hour and a half about our trade problems.

First, I will discuss the short-term prospects for general, nonagricultural trade and then agricultural trade. And then, second, I will discuss the choices I see which will determine the longer term prospects.

Here are a few statistics to bring you up to date. I want to mention that I will use annual figures because they provide a surer grasp of the size of the market. But U.S. exports in 1984—agricultural exports alone—totaled $2.8 billion, and nonagricultural exports—industrial exports—were $470 million.

Two observations present themselves from these figures: One, U.S. exports are five times greater than our imports, which is a very positive balance helping us to offset our great deficit with other countries.

Second, less than 20 percent of the U.S. exports to the Soviet Union are nonagricultural.

Now, the size and the importance of the market really comes into focus when you realize that nonagricultural imports from the United States represent less than 3 percent of the nonagricultural Soviet imports from the industrialized West.

In other words, our Western allies do 33 times as much business with the Soviets as we do. Right now, U.S. imports consist maybe of spare parts. That is, imports from the United States—spare parts for equipment that the Soviets probably wish they hadn't bought from us in the first place.

Representative WYLIE. Did you say our allies do 33 times as much business with the Soviets as we do?

Mr. ANDREAS. That's what I said.

Representative WYLIE. It sounds like a lot. OK. Go ahead, sir.

Mr. ANDREAS. Despite all the evidence to the contrary, some ideologues continue to argue that American technology is being transferred to the Soviet Union in large quantities in such alarming proportions that it is doing harm to American technological might.

The fact is that the present state of United States-Soviet nonagricultural trade is dismal. When you think of all the business that is being lost to our West European and Japanese competitors, it's a disgrace, which leads us to the question why?

The trade is not just an issue. It is the U.S. weapon of choice in a strategy of selected response to Soviet foreign and domestic political policies. United States policies of trade with the Soviet Union have placed the American businessman on the cutting edge of a confrontational policy that borders on no man's land. Not only is he battered but he is confused.

The Commerce Department, pursuant to the President's stated policy, encourages him to trade with the Soviets. But trade policies have been subject to so much change and diverse interpretation over the past decade by the Congress and by the different administrations that the American businessman has now all but lost his competitive position in that market.

Each of the last six Presidents, after a thorough review by the National Security Council, has urged the business community to expand trade with the Soviet Union in our own national interest. The Export Administration Act regulates trade with the Soviet Union. It encourages nonstrategic trade, but prohibits, as it should, strategic trade in military equipment and sets up a procedure for licensing what falls in between. And therein lies the problem.

There is no reasonable, consistent definition of what nonstrategic trade is. What is exportable 1 month or 1 year may not be exportable next month or next year.

Then there is the problem of contract sanctity. The embargoes and the sanctions of recent years have had a disastrous effect on the reliability of American suppliers.

The Soviets have a very real worry that we are not going to be able to deliver what we promise to deliver, even when a validated export license has been issued. The problem is so serious that not only are the bulk of the contracts going to West European and Japanese companies, but American companies, frequently not knowing what they would be permitted to deliver, are not bidding. Nor are they asked to bid.

Then there is the problem of most favored nation meant to deny the Soviets access to our market by not giving them preferential tariffs that are accorded to our other trading partners. Here is a policy that bears an uncomparable similarity to the current debt situation we are in with the Japanese. Consider the psychological obstacles attached to the denial of access to a market. We go into Moscow and they say, "Sure, you want to sell in our market, but we can't sell in yours."

You have to agree. It certainly doesn't help the business environment.

This is the problem of financing. Like it or not, selling on credit is an international norm. It is an integral part of the pricing package. Without the advantage of Exim credits, and the environment it creates for broader commercial vending, American business loses huge amounts of business to Western European and Japanese companies who offer liberal credit incentives to part of their sales package.

These are handicaps to trade that we ourselves have put into place. On top of that are other barriers to trade that the U.S. exporter confronts everywhere, with which you are familiar—the strong dollar which creates a pricing problem everywhere; foreign competition which is fierce. We must rid ourselves of the false notion that American technology dominates the marketplace. There are very few cases in my experience where anyone, anywhere, has to buy American because they can't buy it elsewhere.

We face increasingly stiff competition in technology, product, price, service, and even in marketing strategy.

Mr. Kendall covered the energy market, which I had wanted to comment on, but I have made a study on what happened to us in the pipe laying equipment matter.

When the embargo was put in place, I think, Caterpillar lost on the spot 225 million dollars' worth of business.

Representative WYLIE. Do you agree with what Mr. Kendall said?

Mr. ANDREAS. Yes, I do.

Now, the situation is no different in agriculture. Let me assure you that agricultural trade is vital to the American farmer, particularly this year when we have bumper crops and prices spiraling downward.

Clearly, if the American farmer had 70 percent of the Russian business today, as he did before the embargo, many of the farm problems that you read about in the newspapers daily would be alleviated. Competition for the Soviet market, as I'm sure you can appreciate, is now fierce.

Price in the agricultural area has become a very decisive factor and other governments are helping their farmers with generous government subsidies. For example, the EEC subsidizes heavily the sale of feed and wheat from France, using billions saved for their treasury by the simple fact that Uncle Sam picks up the tab for a major part of their defense costs.

So we are paying that bill, in a way. Brazil and Argentina subsidize shipments of soybean oil and meal exports with money borrowed from the United States banking system and other sources. All of this works against the American farmer, who are having an extremely difficult time getting back into this market.

The American farmer also on the other side of this business has to pay high interest rates to compete with foreign borrowers.

To his everlasting credit, President Reagan canceled the embargo and authorized a long-term agricultural agreement signed in 1983. It helped create the climate for improved trade. It included the sanctity of contract clause that comes to grips with the core problem in trade relations. The long-term agricultural agreement is largely responsible for the Soviet purchases this year. But, by itself, the long-term grain agreement cannot deal with the deep-rooted resentment the Soviets feel because of the unreliability of the United States supplier.

The fact is we have held the umbrella while our competitors are doing the business. I wish I could state the solution to the problem more directly, but, as I see it, we have two choices before us:

We can lumber along under the current conditions. If we choose that course, the future most assuredly is predictable. We will become more and more isolated from one of the mainstreams of commerce in the world with the predictable deleterious effect on our global economic and political preeminent position in the world.

United States agricultural exports to the Soviet Union will decline.

As for nonagricultural trade, it is not going to get any better if we follow the present course. Nonagricultural exports are below the $500 million mark and that's where they will stay. As for emigration from the Soviet Union, which was the reason behind the Jackson-Vanik legislation, we expect no improvement. That piece of legislation not only had a devastating effect on our trade relations; it has virtually closed the door to emigration.

And I'm sure you are aware of the current statistics. A total of 792 Jews emigrated from the Soviet Union during the first 8 months of this year.

In summary, the long-time prospects under the current conditions are bleak. We have another choice. We have little to lose with such a move. Jackson-Vanik, however well intended, is a complete and absolute failure—a disaster for Jews who might prefer to migrate to Israel for personal and religious reasons.

The Soviets will not allow Jackson-Vanik to be brought to the negotiating table. Jackson-Vanik has failed to achieve its objective of increased emigration. Worse, it has gone far beyond its purpose of withholding most-favored-nation status from the Soviet Union and denying Exim Bank credits to help business and employment in this country. It has become a massive stumbling block to improved relations between our two countries and our farmers—and I consid-

er this a serious matter—are coming to believe that Jackson-Vanik is responsible for their limited export business to the Soviet Union.

It could be repealed. Such action would open the path to review the Stevenson amendment, another self-defeating act that ties the issuance of Exim credits to minority emigration from the Soviet Union.

Now, if the Jackson-Vanik and the Stevenson Acts succeeded in slowing down emigration, which they did, it is reasonable to expect that their repeal might evoke an unnegotiated favorable response in Soviet emigration policies. Then we could move to the next step—a rational policy on credits.

Now it is important to remember how credits occur. I want to give you an example of what has happened. Our banks and other institutions send massive credits to Brazil, Brazil takes this money—our money—to improve their means of production. They get loans from the World Bank, our money, to improve their means of production.

Brazil then makes export sales—very large ones—to the Soviet Union and to the Eastern bloc. These sales carry hundreds of millions of dollars of export subsidies, again, with our money. Nearly always the sales are made with these subsidies. How foolish it seems to the rest of the world.

Clearly, it would be better if our farmers—United States farmers and workers and industry—could reap these benefits, instead of lending money and providing aid to the Soviets via Brazil.

Thus, around the farm—that's just one example—around the barn, business goes on. The Soviets easily acquire what they want with our indirect and often unwittingly help, while for political purposes or just plain apathy we look the other way.

Time was when the United States was flush with the favorable balance of trade and saw itself rich enough to be the world's greatest benefactor, paying the bills for the Third World and for our allies.

Now that we have to borrow from foreigners to pay our bills and are plunging deep into debt, soon to become the biggest debtor Nation in the world, it may be time to come up with a national trade policy based on our own self-interest.

Additionally, we could adopt a rational policy of realism and consistency in our Export Administration. Such a shift in United States trade policy with the Soviets would have an immediate impact on trade and would be looked upon as a positive action to improve the overall political relationship between our two countries. It would evoke an immediate positive response from Moscow. I am sure of that.

The choice—whether we want to continue down the current, bleak path or pursue a more realistic approach that would benefit us all—is up to us.

Thank you.

[The prepared statement of Mr. Andreas follows:]

PREPARED STATEMENT OF DWAYNE O. ANDREAS

My name is Dwayne Andreas. I have for the past 15 years been Chief Executive Officer of the Archer Daniels Midland Company, the largest agricultural processing company in America. The value of our exports of processed products places us 19th on FORTUNE magazine's ranking of the leading US exporters. Add to that our yearly sales of grain and oilseeds, and we're among the top ten. Currently about 18 percent of our sales are export. Our total sales in 1984 came to over $5.0 billion.

In addition, our overseas affiliate, Alfred C. Toepfer, Inc., headquartered in Hamburg, Germany, does about $5.0 billion annually in 30 countries, in partnership with 11 farmers' cooperatives representing 1,700,000 farmers.

I have had over 30 years of experience in selling, or trying to sell, agricultural products to the Soviet Union. I am also US Chairman of the US-USSR Trade and Economic Council, which has brought me into contact with a cross-section of American businessmen who have acquainted me with the problems, as well as the prospects, they encounter in doing business in the Soviet Union. The Council, a binational organization of some 240 American companies and 125 Soviet foreign trade business enterprises, was formed in 1973 as a result of a government-to-government protocol. It operates in New York and Moscow as a private trade facilitation organization concerned with the expansion of trade between the United States and the Soviet Union.

I have dealt with and met a host of Soviet business officials and many ranking members of the Soviet government. I first visited the Soviet Union

in 1952 and have returned probably a dozen times in subsequent years. I met with the current leader of the Soviet Union, General Secretary Mikhail S. Gorbachev, last December just before he assumed the Post of General Secretary.

I have been asked to speak to you today about the short- and long-term prospects for expanded American grain sales to the Soviet Union. I welcome this opportunity to speak in behalf of the American farmer and agribusiness industry on the importance and great potential of the Soviet market. But I cannot speak of grain sales alone. To give meaning to my remarks, I must speak to the broad subject of US-Soviet trade, because trade with the Soviets is an issue tied to many factors -- and all which impact on one another.

First, I will discuss the short-term prospects for general non-agricultural trade . . . then, agricultural trade. Second, I will discuss choices I see before us that will determine the long-term prospects for both kinds of trade between the United States and the Soviet Union.

Here are a few statistics to bring us up to date. Two-way trade between the Soviet Union and the United States for the first six months of 1985 totaled approximately $1.8 billion. Over 90 percent of that was US exports, or almost $1.6 billion. Further, the largest segment of those exports was agricultural products, or almost $1.4 billion. That leaves approximately $265 million for non-agricultural exports. By and large, the 1985 six-month statistics are on a par with the preceding year, when total exports came to $3.2 billion; imports, $602 million. I'll use the annual figures because they provide a surer grasp of the size of the market. Of US exports in 1984, agricultural

exports totaled $2.8 billion, with less than $470 million for non-agricultural exports.

Two conclusions present themselves immediately. One, US exports are over five times greater than imports, a very positive balance helping us to offset great trade deficits with other countries. Two, less than 20 percent of US exports to the Soviet Union are non-agricultural products.

The size and the importance of the market really comes into focus when you realize that non-agricultural imports from the United States represent less than three percent of the non-agricultural Soviet imports from the industrialized West. Our allies do 33 times as much business with the Soviets as we do. Right now, US imports consist mainly of spare parts for equipment that the Soviets probably wish they hadn't bought from us in the first place. This is true because of the difficulties the Soviets have in buying spare parts in the American market. Despite all of the evidence to the contrary, some ideologues continue to argue that American technology is being transferred to the Soviets in quantities of such alarming proportions that it is doing harm to American technological might.

The fact is, the present state of US-Soviet non-agricultural trade is dismal . . . When you think of all the business that is being lost to our West European and Japanese competitors, it's a disgrace.

Which leads to the question -- WHY?

The simple fact of the matter is that trade cannot flourish in an adverse political climate. That is the true predicament of US-Soviet trade. Until, and unless, the political climate changes, the whole of US-Soviet trade will remain far below its potential. It is a fact clearly reflected in the US-Soviet trade patterns of the past 15 years: as political relations improve, trade improves; as political relations deteriorate, trade falls off.

I wish there were some quick solutions to the problem, but unfortunately there are not. There is a web of tremendously complicated issues that separate the two nations -- arms control; geopolitical issues, such as Central America, the Middle East, and the Far East; bilateral issues, which include a Pacific air agreement, cultural and scientific agreements; and political issues such as human rights, etc.

Trade can and should be considered an issue in its own right. But all too often it emerges in another form altogether, as a political fastball. I refer to the plethora of legislative restraints and Executive Orders regulating US-Soviet trade over the past dozen years. It includes embargoes, sanctions, a shifting policy of interpreting and enforcing the Export Administration Act and the effects of Title IV of the Trade Reform Act of 1974 -- the Jackson-Vanik Amendment.

Trade is not just an issue. It is the US weapon of choice in a strategy of selective response to Soviet foreign and domestic political policies.

US policies on trade with the Soviet Union have placed the American businessman on the cutting edge of a confrontational policy that borders on no-man's land. Not only is he battered, he is confused.

The Commerce Department, pursuant to the President's policy, encourages him to trade with the Soviets. But trade policies have been subject to so much change and diverse interpretation over the past decade by the Congress and different Administrations that the American businessman has now all but lost his competitive position in that market.

Each of the last six Presidents, after thorough review by the National Security Council, has urged the business community to expand trade with the Soviet Union in our own national interest. The Export Administration Act regulates trade with the Soviet Union. It encourages nonstrategic trade, prohibits, as it should, strategic trade, and sets up a procedure for licensing what falls in between. And therein lies the problem.

There is no reasonable, consistent definition of what nonstrategic trade is. What is exportable one year is not exportable in another year.

Then there is the problem of contract sanctity. The embargoes and sanctions of recent years have had a disastrous effect on the reliability of American suppliers. The Soviets have a very real worry that we are not going to be able to deliver what we promise to deliver -- even when a validated export license has been issued.

The problem is so serious that not only are the bulk of the contracts going to West European and Japanese companies, American companies, frequently not knowing what they would be permitted to deliver, are not even bidding. Nor are they asked to bid on contracts.

We all know that one of the principal accomplishments of the Joint Commercial Commission meeting in Moscow last May was to get the Soviets to make what amounts to a political decision, to get American companies back into the bidding. Commerce Secretary Baldridge asked for and received a formal assurance from Foreign Trade Minister Patolichev that a letter would be sent to the Soviet foreign trade organizations asking them not to discriminate against American companies in the bidding process.

Then there is the problem of Most Favored Nation treatment -- denying the Soviets access to our market by not giving them preferential tariffs that are accorded other trading partners. It is a policy that bears an uncomfortable similarity to the current Japanese situation -- only in reverse. Admittedly, lopsided trade surpluses in our favor are fine for the short term, particularly when we are running such huge trade deficits. But they create all kinds of ill will, and they are a major obstacle in developing a long-term market. The Soviets do not have a limitless pool of foreign currency earnings. Quite naturally, they will buy more -- from those who buy from them.

Consider the psychological obstacles attached to the denial of access to a market. We go into Moscow and they say: "Sure, you want to sell in our market, but we can't sell in yours." You have to agree: It certainly doesn't help the business environment.

Added to this is the problem of financing. Like it or not, selling on credit is the international norm. It is an integral part of the pricing

package. Without the advantage of Ex-Im credits, and the environment it creates for broader commercial lending, American business loses huge amounts of business to Western European and Japanese companies who offer liberal credit incentives to their sales package.

Extension of credit, properly done, is profitable to both sides, and the lender has a distinct advantage of future communication opportunities. Businessmen are puzzled when they see American financial institutions lending billions to third-rate risks around the world while snubbing Soviets whose record of payment over a long period of years is impeccable and whose loans are sought after by European, Japanese, and even developing countries' banks.

These are handicaps to trade that we ourselves have put into place. On top of that are the other barriers to trade that the US exporter confronts everywhere, ones with which you are very familiar --

> . . . The strong dollar, which creates a pricing problem for American exporters everywhere

and

> . . . Foreign competition, which is fierce. We must rid ouselves of the postwar notion that American technology dominates the marketplace. There are very few cases where anyone -- anywhere -- has to buy American because they can't buy it elsewhere. We face increasingly stiff competition in technology, product, price, service, and even marketing strategy.

Let me just talk for a moment about the energy market -- because it is so controversial and so topical.

Energy has just about dried up as a market for American companies in the Soviet Union. It has shifted almost totally to our competition, with most of the equipment from companies in Britain, France, West Germany, and Japan. Still, there is prevalent in the United States this notion that the Soviets need our trade to survive -- even though American petroleum experts say that the US no longer dominates the technology of this market.

You all remember the furor about the pipeline sanctions. That gas pipeline, however, is now very much onstream. It was completed on time and without American technology, although in that instance the sanctions were lifted -- after all of the contracts had been given to our competition in Britain, West Germany, and Japan, depriving the Caterpillar Company of what became a $2 billion order for Japan.

The situation is no different for American agriculture.

Let me assure you this trade is VITAL to the American farmer -- particularly this year when we have bumper crops and prices spiraling downward. The Soviet Union represents a major market that is far less than what is should be.

The American farmer has suffered greatly -- directly and indirectly -- from this on-again, off-again policy on US-Soviet trade. One set of statistics tells the story. Before the grain embargo that was imposed in

1980, US farmers had 70 percent of the Soviet agricultural market. Today, it's less than 35 percent. And the Soviets are not buying less; they're buying more.

Clearly, if we had 70 percent of that business today -- as we did before the embargo -- many of the farm problems you read about daily would be alleviated.

The embargo had a direct effect on US sales in the Soviet agricultural market. There is also a current, indirect effect on the market, a spill-over -- if you will -- of the problems and restrictions attached to the general trade.

There has been created among Soviet purchasing agents an environment of skepticism and resentment toward American suppliers that is directly related to the problem of contract sanctity and the denial of market access.

We are, I assure you, making every effort to get back a larger share of that market. But, as a businessman, I cannot quarrel with the Soviet reaction to the embargo. When their primary supply was cut off, they began immediately to look for other sources of supply. The net result is they have now diversified their agricultural imports so that they are not dependent on anyone during times of need.

Competition for the Soviet market, as I'm sure you can appreciate, is now fierce. Price has become a decisive factor -- in this case, because our competition is able to cut prices on their agricultural exports with

the help of generous government subsidies. For example, the EEC subsidizes heavily the sale of feed and wheat from France using billions saved for their treasury by the simple fact that Uncle Sam picks up the tab for a major part of their defense costs. Brazil and Argentina subsidize soybean oil and meal exports with money borrowed from the US banking system and other sources. All of this works against American suppliers, who are having an extremely difficult time getting back into this market. They also pay high interest rates to compete with foreign borrowers for capital.

There is no way to predict with certainty the future of agricutural sales to the Soviet Union. It depends to a large extent on their needs and the success the Soviets have in increasing their harvests. But one fact is evident. We have lost a large chunk of the market to others who have responded to our embargo by permanently increasing production, largely with borrowed capital.

To his everlasting credit, President Reagan cancelled the embargo and authorized a Long-Term Agricultural Agreement signed in 1983. It helped create the climate for improved trade. It provided a badly-needed security net for US agricultural exports. It includes a sanctity of contract clause that comes to grips with the core problem in the US-Soviet trade relations. The Long-Term Agricultural Agreement is largely responsible for Soviet purchases this year.

But by itself, the Long-Term Grain Agreement cannot deal with the deep-rooted resentment the Soviets feel toward the unreliability of the US market as a source of supply . . . the effects of the grain embargo . . . the pipeline sanctions . . . the tabling of export licensing applications. These actions

have had a devastating effect on trade relations, as has the mistaken philosophy behind these restrictions -- the belief that the denial of US trade is going to exact some toll from the Soviets.

I can in summary define the problem for you in very simple and direct terms. There is prevalent in the United States a notion that the Soviets need our trade to survive and that we can use trade to exact a political payment from the Russians. The fact of the matter is the Soviet Union has not only managed without US trade, it has largely given up in the effort to pursue this trade.

Fact is: We have "held the umbrella" while our competitors are doing the business.

I wish I could state the solution to the problems with as much directness and certainty.

As I see it, we have two choices before us.

We can lumber along under the current conditions. If we choose that course, the future most assuredly is predictable. We will become more and more isolated from one of the main streams of commerce with the predictable deleterious effect on our global economic and political preeminent position in the world.

US agricultural exports to the Soviet Union will decline, or, at best, hold to the current levels. US agricultural yields, as you probably know,

are at an all-time high this year, forcing prices down and adding new problms to the already worrisome plight of many of our farmers. I cannot help but add that this is no time to be losing major markets -- either agricultural or non-agricultural markets.

As for non-agricultural trade, it is not going to get any better if we follow the present course. Non-agricultural exports to the Soviet Union are now down below the $500 million mark, and that's where they will stay. This will happen even though the opportunity for growth is there. Soviet imports from Japan, West Germany, France, and other major West European suppliers continue strong and certainly will increase. Imports in 1984 from Japan totaled $3 billion; from West Germany, $4.9 billion; France, $2.6 billion, etc., etc. Clearly those who do the business with the Soviets will enjoy the most access to them and have the most influence with the Soviets.

As for emigration from the Soviet Union, which was the reason behind the Jackson-Vanik legislation, we can expect no improvement. That piece of legislation not only had a devastating effect on US-Soviet trade relations, it has virtually closed the door to emigration. I am sure you are aware of the current statistics. A total of 792 Jews emigrated from the Soviet Union during the first eight months of this year. I can't imagine the situation getting worse, but it probably will.

In summary, the long-term prospects under the current conditions are bleak at best.

We have another choice.

We could look for ways to bring order and consistency to US trade policy toward the Soviet Union. Trade relations are now so linked with our political relationship that any change would be taken as an unmistakable signal of a wish to influence the political climate.

We have little to lose with such a move.

Jackson-Vanik, however well intended, is a complete and absolute failure . . . a disaster for Jews who would prefer to migrate to Israel for personal religious reasons. The Soviets will not allow Jackson-Vanik to be brought to the negotiating table. Jackson-Vanik has failed to achieve its objective of increasing emigration. Worse, it has gone far beyond its purpose of withholding most-favored nation status from the Soviet Union and denying Ex-Im bank credits to benefit US business and employment. It has become a massive stumbling block to improved relations between the two countries.

And our farmers are coming to believe that Jackson-Vanik is responsible for reducing their export market.

It could be repealed.

Such an action would also open the path to a review of the Stevenson amendment, another self-defeating act that ties the issuance of Ex-Im credits to minority emigration from the Soviet Union.

Just as the Jackson-Vanik and the Stevenson acts succeeded in slowing emigration, their repeal could evoke an UNNEGOTIATED -- favorable response in Soviet emigration policies. Then we could move to the next step -- a rational policy on credits, based on self-interest.

It is important to remember that Ex-Im and other credits in themselves are not only important to selling in the export market. As a catalyst, they help create a financial climate that spurs profitable commercial bank business.

Consider this example: Our banks and other institutions extend massive credits to Brazil, who in turn, with our money, improve their means of production. Brazil then makes export sales, frequently on very favorable credit terms again, with our money. Nearly always the sales are made with heavy export subsidies provided by the money borrowed from us. How foolish this seems to the rest of the world. Clearly it would be better for us if US farmers, workers, and industry could reap these benefits.

Thus, around the barn, so to speak, the business goes on. The Soviets easily acquire what they want with our indirect and often unwitting help while, for political purposes or just plain apathy, we look the other way.

Time was when the US was flush with the favorable trade balances and saw itself rich enough to be the world's great benefactor, paying the bills for the third world and for our allies. Now that we have to borrow from foreigners to pay our bills and are plunging into debt, soon to become the biggest debtor nation in the world, it may be time to come up with a national trade policy based on our own self-interest.

Additionally, we could adopt a rational policy of realism and consistency in our interpretation of the Export Administration Act and with it a reasonable definition of nonstrategic trade. We could offer a consistent policy on what can and cannot be exported to the Soviet Union. We could give assurances that, once a contact is signed, it will be executed promptly.

Such a shift in US trade policy with the Soviets would have an immediate impact on trade and would be looked upon as a positive action to improve the overall political relationship between the United States and the Soviet Union. It would evoke an immediate, positive response from Moscow. I am convinced of that.

The choice -- whether we want to continue down the current bleak path or pursue a more realistic approach that would benefit us all -- is up to us.

Thank you for your attention.

Representative WYLIE. Thank you, Mr. Andreas, for your most significant and extremely well-presented statement.

You have both given us much to think about here. You were both here when Secretary Baldrige made his presentation and said he thought that U.S. exports to the U.S.S.R. could be increased from $3 billion, which is where it is now, I guess, to $5 billion per year in the next few years, and that our U.S. employment might thereby be increased by some 50,000 jobs.

Do you, Mr. Kendall, agree with what he said? If so, what is the basis for how that could be done?

Mr. KENDALL. Well, I think the Secretary, to answer that question, would have to have a crystal ball and tell me what you're going to do in Congress. If you tell me that you're going to——

Representative WYLIE. Well, you tell us how you think it can be done.

Mr. KENDALL. If you tell me you're going to give the Soviet Union MFN, then if the administration in the meeting in Geneva is successful with Gorbachev—President Reagan and Gorbachev have a good meeting, in which the political climate becomes improved and we solve some of the critical issues such as Aeroflot coming into this country and cultural agreements, and where there's really improved relations, I think the Secretary is very conservative. In 1972 or 1973, when I was Chairman of the Trade and Economic Council, I had Citicorp, General Motors, and General Electric make a long-range forecast on trade, and they estimated in 10 years, we would be doing $50 billion of two-way trade between the United States and the Soviet Union. Well, guess what happened? The two-way trade existed, but it's with Europe and Japan and not with the United States, and I think we can do much more than he suggested. And I think the Secretary indicated himself, he was being very conservative, if the climate changes.

Representative WYLIE. Mr. Andreas.

Mr. ANDREAS. Well, I agree with Mr. Kendall. I think that it takes a broad range of improvement in the relationship. Particularly, it would be necessary to grant most-favored-nation status, in order for any improvement in manufactured goods. And now the agricultural trade depends entirely on the weather, frankly. It's something none of us can predict, and that could go up or it could go down.

I remember that I predicted 4 years ago that we'd be selling 5 million tons of corn a year to China by now. Instead, they are exporting 5 million tons a year. So I was wrong there by 10 million tons, and I'd hate to predict what can happen in agricultural goods. I know that Gorbachev, since he has been in has increased the area of private farms. Whether or not that will have as much improvement on their production as it had in China, time will tell; but otherwise we are dependent on the weather. In the industrial sector, I don't see any opportunity for an increase until we get rid of Jackson-Vanik and grant them most favored nation.

Representative WYLIE. You both seem to think that increased trade is dependent on granting most-favored-nation status. Is that fair to say that?

Mr. KENDALL. Yes, sir.

Mr. ANDREAS. I would say so.

Representative WYLIE. Do you have a feel for what the chances are of that happening in the near term?

Mr. KENDALL. Mr. Congressman, you sit in the seat of power on that one, and I would hope that Geneva is a success and out of that comes a climate in which that subject can be brought up again. I think that the Jewish community has recognized what has happened on immigration, and I think there's a lot of leadership in that community today that would support a change in that policy. Frankly, I think that in the Jackson-Vanik amendment, the Jewish community was really abused. It stopped the flow of emigrants who were leaving the Soviet Union at a very high rate, which at that point, in my opinion, would have continued. My experience in the Soviet Union—and I think Dwayne Andreas would agree with it, and I know Secretary Baldrige would—it is foolish to think you can lay down the gauntlet of power to the Soviet Union and just tell them you are just going to do this or you won't do this. That's not the way to negotiate with the Soviets. And anybody that's dealt with them can tell you that.

I think if you would change the Jackson-Vanik amendment and open up the door, that you will see a lot of things happen.

Representative WYLIE. Mr. Andreas.

Mr. ANDREAS. Well, I think that I'll just agree with what Don Kendall just said.

Representative WYLIE. Both of you gentleman have been very successful in trading with the Soviets. I think that's a fair statement. You have done it, even in view of the fact that we don't have most-favored-nation status with the Soviets, and in view of the fact that we have Jackson-Vanik.

Would you have any advice to other American businessmen who might want to negotiate with the Soviets, in view of your hands-on experience as to how they might—using the word advisedly—get around this most-favored problem that we have and the Jackson-Vanik problem?

Mr. KENDALL. Well, the first thing, talking about advice to the business community, if they're not presently dealing with the Soviet Union, the first thing I would recommend they do is join the United States-Soviet Trade and Economic Councils, so that they have access to information about the market. It would be foolish to finally go to the Soviet Union without going through some group. Now you can do that through our Embassy; however, I think that most people find they get better access to the Foreign Trade Ministry through the Trade and Economic Council.

The second thing I recommend is that the top management deal with this. This is not something where you send over people down in the organization until you establish a relationship. You also have to find out before you start negotiating how many different organizations are involved. I'll never forget in our own case, I thought the Foreign Trade Ministry was the only one I had to deal with, and after I made our agreement, I was taken over and introduced to the Minister of Food, who didn't think this idea was such a good one, and he was the one who had to execute both sides of it. And I ended up in all kinds of trouble And I later found out there was another man who was involved in the Central Committee who has all light industry, including the food industry that's involved.

Then you find the GOSPLAN is involved, so you better find out who's involved in the decisionmaking process, and then you better have a lot of patience and keep reminding yourself that in dealing with the Soviet Union, it would be like coming to the United States and trying to sell our Government something, where you had to deal with the FDA, with the Commerce Department, with the State Department, and then the Defense Department. You get all through it and you then have to deal with the Republican or the Democratic Party. [Laughter.]

And you can imagine what would happen. What you might go through over there.

So you better have patience.

Representative WYLIE. I don't want you to reveal any secret information vis-a-vis Coca-Cola or anything like that, but it might be helpful to know more about your present and future plans for that Soviet market?

Mr. KENDALL. Well, we presently have 16 plants operating in the Soviet Union. We're selling about 30 million cases of our product. The food industry has just been challenged by Secretary Gorbachev, because of the problem of alcoholism, and he is serious about it. You can no longer get a drink in Moscow until after 2 o'clock. The Food Ministry, in fact, last week, the first time I ever had lunch and the Minister of Food gave a lunch and served caviar and Pepsi-Cola with it instead of vodka. I never thought I'd end up eating caviar with Pepsi-Cola. [Laughter.]

But he's really serious about it, and the food industry has to triple—I say triple—soft drink production over the next 5 years. I think that's almost impossible to meet, but nevertheless, that's what their plan calls for, so our business is really going to be booming in the Soviet Union, and my guess is at the time we finish our present agreement, the one we just completed last year, we will be up in the area of 70 to 75 million cases, which is about what Pepsi-Cola was selling in the United States when I joined the company.

Representative WYLIE. I read an article not long ago that they were mixing Pepsi-Cola with vodka. Is that going on?

Mr. KENDALL. That they were doing what?

Representative WYLIE. Mixing Pepsi-Cola and vodka, a new drink.

Mr. KENDALL. Yes. As a matter of fact——

Representative WYLIE. Is that really true?

Mr. KENDALL. That was one of Prime Minister Kosygin's big concerns when we negotiated the agreement. He was very concerned about alcoholism and was hoping that Pepsi-Cola would decrease the consumption. And when we opened our first plant, we took a hydrofoil on the Black Sea up to a town called Sochi, and the mayor met us at the dock and promptly said that the most popular drink in Sochi was Pepsi-Cola and vodka. [Laughter.]

Representative WYLIE. I don't know how you pulled that one off, but it sounds like you have done very well with your hands-on experience in marketing in the Soviet Union.

Congressman Scheuer has joined us, from the State of New York.

Jim, do you have some questions?

Representative SCHEUER. I do, Mr. Chairman. Thank you. I have enjoyed the testimony very much, and I am sorry I was late in getting here.

According to a piece, I think in the October 3 issue of the Washington Post, there was a story that the Soviet Union had defaulted on its contractual obligation—I guess three obligations——

Representative WYLIE. Thank you for reminding me of that question. I asked Secretary Baldrige and indicated that I would ask Mr. Kendall and Mr. Andreas, but you go ahead.

Mr. ANDREAS. Yes, I think I can cast some light on that, because I'm in the business.

Representative SCHEUER. At one point, 1-million-ton shortage in their contractual obligation to buy our grain.

Mr. ANDREAS. Now they exceeded their corn purchase commitment by many, many millions of tons. I'm not sure how many—maybe 8 million tons or 10. But on wheat, when they came to the end of the period, I'll tell you exactly what happened. In their long-term agreement, it says they agree to buy *x* million tons at the market price. Now during recent months, France and Argentina have been selling wheat at lower and lower prices every week. The U.S. merchants cannot do that, because the U.S. Government is the principal buyer of our wheat now.

So what the Soviets did was, they gave a bid to each of the four major trading companies. I believe—don't hold me to these figures, but give or take a few dollars—I think their bid was $111 a ton; the French price on that day was $103 a ton and the Argentine price was $98. The American price was $135. Now no private merchant can buy at $135 and sell it at $111, so no one could possibly sell it. So they offered to buy and bid a premium of about $8 over the world market, which would compensate, say, for a better freight and service we can give them, and so forth.

It was a good fair bid. It certainly was the market price, but since no one could sell it to them at that price, they bought it from France.

Now in business terms, they lived up to their contract totally, because they had no obligation to buy it at above the market price; but in political terms, and in the terms the journalists have been using, they simply say that they were supposed to buy *x* million, and they bought a million less. The fact is, they fulfilled their contract completely.

Representative SCHEUER. Fair enough.

Representative WYLIE. So the report that they failed to live up to their agreement, you would say, is not accurate?

Mr. ANDREAS. It's not true. It's totally inaccurate.

Representative WYLIE. A price was agreed on though in the contract; is that right?

Mr. ANDREAS. In the long-term agreement? No, no, there was no price agreed to. The price was—it only states the market price at the time they buy it.

Representative SCHEUER. And our people couldn't afford to sell it to them at the market price which was established by the French?

Mr. ANDREAS. That is correct. And the French, with huge—14 million dollars' worth of export subsidies, the Government was subsidizing way down to below the American price, so our farmer is

competing with the EEC treasury, not with other farmers. It's also true with manufactured goods. Our workers are not competing with other workers; they're competing with the EEC treasury, which subsidizes large portions of their manufactured goods.

Representative WYLIE. They're subsidized through interest rate arrangements?

Mr. ANDREAS. Through interest rate arrangements covertly. And I chaired a task force for the President on that foreign trade subject last year. We estimated there are between 7 billion and 10 billion dollars' worth of mixed credits being offered by Western Europe and Japan. And I noticed that our Government recently authorized $300 million. My task force recommended we authorize $7 billion, in order to be competitive, so I'd say we're on the right track.

Representative WYLIE. If the gentleman will yield further.

Representative SCHEUER. Sure.

Representative WYLIE. Mr. Mulford, the Deputy Secretary of the Treasury, came to my office with a bill to authorize $300 million in credit funds through a separate facility that could be maintained by the Secretary of the Treasury, and he asked me to put it in on request. And I went to the chairman of the full committee, Congressman St Germain, and talked to him a little bit about it, and before the day was out, I had 50 cosponsors on my bill—21 Democrats and the rest Republicans—and more than half of the members of the Banking Committee, to which the bill has been referred, are on it, so it looks like we might get some movement on that bill. Do you think that's a good piece of legislation?

Mr. ANDREAS. I certainly do. I think it would have a much more profound effect, if you would make that figure the total resources of the Eximbank, which at the present time, counting everything coming in is about $7 or $8 billion, and let the President give it out $300 million at a time. One of the main objectives——

Representative WYLIE. That's a little harder to do. The $300 million which the President has already mentioned, can be leveraged into about $1 billion, I think, in subsidized interest rates, according to Mr. Baker, the Secretary of the Treasury.

Excuse me, Jim, for interrupting. Go ahead.

Representative SCHEUER. Can I ask both of you. It seems from what we have heard that Mr. Gorbachev would like to modernize and enhance the productivity and efficiency of the Soviet economy. Now what, in your view, would be the role that American interest and American agriculture could play in that venture that would be consistent with our national interests, including not only our agricultural technology, but our industrial technology, including some high-technology items that are nondefense, like desktop computers, and so forth and so on?

Mr. KENDALL. First, let me comment. I just got back last night from the Soviet Union, and there are a lot of things happening there that to me are absolutely unbelievable.

Representative SCHEUER. Tell us about it.

Mr. KENDALL. Apparent changes. You hear conversations today that Marx and Engels, for example, were not aware of the world we're living in today; that Lenin believed in free enterprise and believed in competition, and when we start hearing that sort of thing,

it means that changes are occurring—and the statements are that Stalin is the one that got away from Lenin's view of how to run the economy, that he did believe in free enterprise. You can hear conversations about joint ventures today which you expect in Bulgaria and Poland and Hungary, but which have been unknown in any way, even the discussion of them, in the Soviet Union.

They are having discussions like that today. Under Andropov, they started an experiment in the Ukraine which, if you save money on your plan, that money can go back to your industry and you can spend it yourself.

The Minister of Food told me last week that in the Ukraine, the food industry, for example, eliminated 5,000 jobs. Yet the money paid to that pool of people is still exactly the same, which means the people who are left are getting rewarded. Also, workers can get up to a 40-percent increase by improving their performance and productivity.

I think if our Ambassador were here, he would tell you that he questions whether Gorbachev's going to be able to pull this off, because the people ingrained are in the system, in the hierarchy, which means that they're going to lose a lot of the scope they had in the past. I, for one, happen to think that Gorbachev will make that. I think that he's a man of tremendous energy, and he has a lot of momentum and people with him, and you can see how fast vodka consumption was cut. And he went out there, with a personal campaign. He did it. He's pulled it off. Some people think he will not be successful in that; but I happen to think he will be.

So I think you're going to see great changes in the Soviet Union.

One of the places, for example, where we have a tremendous opportunity is in the food industry. The Soviet Union loses its grain—Andreas can tell you—about 50 percent of their crops—for example, potatoes—between the field and the consumer. They lost about 50 percent of them. PepsiCo in our Frito-Lay Division is one of the largest suppliers, somebody who keeps potatoes over in storage. We probably store more potatoes than anybody in the country over the winter, because we need them for continuous shipping. We have had a Soviet delegation come over and visit our facility. Gorbachev is personally interested in this. Last week I was asked to write a letter to him and give him more information on how we are storing potatoes.

The Minister of Food has said on many occasions, we're the only country that can give them the processing equipment that they need, because there's no other agricultural community that's as big as ours. Switzerland or Germany can't do it. They don't need the type of equipment that we need. So there is tremendous opportunity in food processing and the agricultural sector.

I also think in a lot of areas of consumer goods, there is great opportunity. I think you can far exceed what Secretary Gorbachev is talking about.

Representative SCHEUER. Well, to follow up on that, as we help them, in effect, improve the standard of living, is that going to make them more bellicose, less bellicose? Is it going to make Gorbachev easier to deal with, more belligerent or more intractable? How is it going to affect our relations with the Soviet Union in general on nuclear disarmament, for example, assuming we can get

some sanity in our own position on nuclear disarmament, which is a big question mark for the time being?

Mr. KENDALL. I agree with that. This is a question that many people have argued for a long time and debated. I'll give you my opinion of why I think it's so important to build what I call "bridges of communication" through cultural exchange, scientific exchanges, marine exchanges, trade and tourism. It's because the more you open that society up the better. Look what happened in Hungary and look what happened in Poland during the period of détente. The Polish trade coming to the West was about 70 percent. It was only after they got in trouble that the iron fist went down, and we put clamps on—that trade moved back to Comicon countries.

I think as you open up that society to trade, you get more consumer products, because the average saving account in the Soviet Union is over 1,000 rubles. They have very high savings——

Representative SCHEUER. And nothing to spend it on.

Mr. KENDALL. They don't have things to buy. It's not like China. In China, the people don't have any money to buy anything, but in the Soviet Union they have the money to buy, and all we have to do is get the products there. Any time you look at history, you see that a totalitarian government is at its peak of strength when it's being attacked from the outside. When a country is content on the inside and the people are happy, and they're moving ahead, and they're getting consumer things and can start to travel, that's when society is changed; not when it's being attacked from the outside.

Representative SCHEUER. So you think that an active role by American business, American agriculture, American technology, in building up the Soviet economy, making it more efficient, making it more productive, adding to the quality of life there, giving consumers a better break, will end up in creating a more salubrious environment, in general, between the two nations and, therefore, creating an environment where peace is more likely to result in a gradual winding down of these incredibly wasteful levels of nuclear arms and conventional arms on both sides of the fence?

Mr. KENDALL. Mr. Congressman, let's look at what happened. What have we done by the approach of having what I call economic warfare? By following a line that some people—civilians in the Defense Department, not the military—would like to take with the Soviet Union, where we sell them nothing, where they have held restrictions on us, where we have had constant agitation over every issue with the Soviets, what will we accomplish?

We have increased our defense expenditures beyond the point where I don't think we can afford it, and I'm a conservative Republican. And I don't think we can afford it and meet the social obligations that we have in this country. We can't do both of them. At the same time, look at what the Soviet Union has had to spend on their military instead of taking care of their people.

Now we have been trying that approach. How long do we have to keep on that course before we recognize that we are not going to change history by continuing it. All we're going to do is continue to escalate and to escalate and to escalate. We can't afford it, and they can't afford it. And I think it's time to try a new course, and I

think that we ought to try for the one that I have suggested a while. Maintain our military while we're doing it. I'm not saying get rid of our military. Let's maintain it while we go down a new course, but let's try a new way for a change.

Representative SCHEUER. And how do you think this ought to be—this new attitude of yours, if you could talk to Mr. Gorbachev, and if you could talk to Max Kampelman, give them each hell, give them what for between now and the Geneva summit, how would you like to see your attitude reflected in the Geneva summit?

Mr. KENDALL. I think in Geneva, if you can accomplish a few things, if you can reestablish Aeroflot where it comes to the United States and Pan American goes to the Soviet Union. In other words, we settle the problem in the Pacific of the Korean airliner. That in itself is a big symbol. It's not the importance of the number of people that are flying; it's the fact that relations are starting to improve. If you get a cultural agreement settled where people can start going back and forth again, it's another important symbol that we are starting to change things. If you can then set a date for the second summit. As former President Nixon said, we ought to have a summit every year. I think you probably ought to have it more frequently than that. One of the big problems you have in both Governments is to get the bureaucracy off their duff, so they can start working on some of these problems. One way to do it is to have a summit meeting, so we have to go to work and get prepared for it and come up with something to accomplish. So you ought to set a date for the next one.

Then I would hope that at the Geneva meeting that the Soviets would come up with a proposal, which I understand that they have, that is reasonably acceptable to this administration. They can then turn it over to people in Geneva to negotiate a reduction in arms.

Representative SCHEUER. And on the question of bilateral trade negotiations, what would you say?

Mr. KENDALL. I think that the bilateral trade negotiations will fall out of that, because if those events occur, the other will follow.

Representative SCHEUER. Thank you very much, Mr. Chairman.

Representative WYLIE. Thank you. Very good questions.

I wanted to follow up on a line of questions asked by Congressman Scheuer about the meeting coming up in Geneva. You had a chance to visit with Mr. Gorbachev just before he became Secretary General; is that right?

Mr. KENDALL. That was Mr. Andreas.

Representative WYLIE. Oh, you did.

Mr. ANDREAS. I did.

Representative WYLIE. Did you talk to Mr. Gorbachev yourself?

Mr. KENDALL. I talked to Mr. Gorbachev before he became Secretary General. This is long before. Mr. Andreas talked to him after he was actually elected.

Mr. ANDREAS. No, I talked with him in December of last year, which was about 5 weeks before he became the Chairman.

Representative WYLIE. What do you think are the chances of his tying in—and I think both of you have said that we need to tie in some sort of trade matter or trade negotiations?

Mr. ANDREAS. Well, he indicated to me he thought trade and politics and disarmament ought to all three go hand in hand; we

ought to make progress on all three at the same time, and that is exactly the way he described his position to me, and he indicated that he would like to make it possible for us to both take $70 billion or so off our budgets and direct those funds into other things. And also that there is a great risk in the next 5 to 10 years——

Representative SCHEUER. Excuse me, Mr. Andreas. We're spending about $300 billion a year in defense, and we're not doing it because we're afraid of Lichtenstein or San Marco. We're doing it because we're afraid of the Soviet Union. Now that's only a 25-percent reduction that you have talked about, $75 billion. It's not much. I would hope that in the back of his mind, Mr. Gorbachev would have to be thinking of vastly more—of a vastly greater cut in defense expenditures on both sides. You're absolutely right, both of you gentlemen, in my opinion, are on top of it. Their defense expenditures are sucking their economy dry; our level of defense expenditures, in the absence of a willingness to pay for these expenditures by taxes, has given us this $230 billion deficit, which, in turn, has given us the high interest rates, because we are borrowing the money. That's what our President seems to think is the answer—borrow every dollar around the world that isn't nailed down, so we have to have high interest rates that, in turn, have overvalued the dollar, that in turn, we find an overvalued dollar makes it possible to sell our goods and services around the world.

We price ourselves out of the global trade which, in turn, results in the massive export of jobs, maybe 3,000 a day, 1 million jobs a year. Now both sides are wrecking their economies, and there doesn't seem to be any light at the end of the tunnel.

Mr. ANDREAS. We're on a suicide mission.

Representative SCHEUER. So I hope we can effect more than a 25-percent reduction in armaments.

Mr. ANDREAS. Well, I didn't quite finish. He indicated to me that a good plan might be to be able to cut $75 billion, or let's say, 25 percent, the way it was applicable, and then meet again.

Representative SCHEUER. Billion?

Mr. ANDREAS. Billion. And then meet again when that's been accomplished and take another cut, and do it step by step, until we get rid of this disarmament burden. He seemed to be—he indicated he was very much interested in that, and he was really more or less asking questions, how do you suppose we could bring this about? What kind of a discussion do we need?

I had the feeling, since it was a two-way discussion just like we're doing here today, that this is really what is on his mind. And, of course, in addition, he discussed with me a massive program to improve their infrastructure on their food problem from the farm to the packaging in the consumer market. Then I discussed a several billion dollar program of that kind with him, on which my company, of course, could be of assistance. He seemed to give that a very high priority in our conversation, and I did notice that 3 days after I left there, it was printed in Pravda that he reported this part of our conversation to the Politburo, and the Politburo approved.

Representative SCHEUER. It was reported accurately?

Mr. ANDREAS. Well, I wasn't there when it was reported, but it was about our business transaction, and he had a 50-page catalog of

it, which he told me he had studied thoroughly before I arrived there. So I'm sure that that's a very high priority in his mind.

Representative WYLIE. Do you have reason to believe that Mr. Gorbachev is the same person now, since's he's been elected Secretary General, as he was when you talked to him before he was elected Secretary General?

Mr. ANDREAS. Well, I don't think that I would be competent to judge that. There's an old saying in the Midwest, "Don't try to judge an Indian unless you walk in his moccasins for three moons." I don't see him often enough, although I do expect to see him again shortly, to be able to answer that question. But what I have seen about his conversation with Grunwald in Time magazine, what I read about a briefing of his conversation with Mrs. Thatcher, I would say, from what I know about what he's done since he's been in, I would say up to now, in my view, he's been very, very consistent and predictable; yes.

Representative WYLIE. That's encouraging. I would hope it would give us some room for optimism here.

I think we have been here now for over 2 hours, and this has been a very good discussion.

Jim, did you have anything else?

Representative SCHEUER. Mr. Chairman, we only have about 10 minutes.

Representative WYLIE. Right.

Representative SCHEUER. We're going to wind up, because there's a rollcall vote on now. It just went on. But before we adjourn, I would like to have Mr. Kendall's experience and his speculation too. I really appreciate you gentlemen sort of taking us to the mountain top. It's fascinating for us.

Representative WYLIE. It really is.

Representative SCHEUER. To talk to two gentlemen who have had a free one-on-one meeting with Mr. Gorbachev. We have heard so much about him. He's sort of a glamour puss in the media.

Representative WYLIE. His wife is, too.

Representative SCHEUER. You're a couple of very practical hard-bitten tough minded guys, and I'm really interested to hear you sort of give us a counterpart of Mr. Andreas' remarks. Just take us to the mountain top for the 7 or 8 minutes we may have left before we have to go and tell us what we can expect from Mr. Gorbachev. What he's done may have been predictable, but he's been pretty tough; he's followed a consistent Soviet policy on disarmament; he hasn't seemed to open any great windows of opportunity, at least to the extent we have heard our own Government analyze this 50 percent offer.

Just give us a broad philosophical sort of James Joycian perspective for a few minutes on what you think we can expect from Mr. Gorbachev.

Mr. KENDALL. Well, I think you have to first look back and see that you have someone who was very active in the early 1970's with Brezhnev, a leader and a commander in charge. And I think we missed an opportunity in the early 1970's. Because of what happened with Watergate and Jackson-Vanik, we got off the track. Nothing really has happened since then. The impression I've had is that you really haven't had anybody in charge since 1975–76,

except for a very short period. It would seem from all the people I have talked to in Eastern Europe, that there was a lot of optimism because of Andropov. And Gorbachev appears to be going in that same mode.

Gorbachev obviously is a very tough man and very articulate, and if he wasn't, he wouldn't be there. I mean, you don't get to be President of the United States or the General Secretary of the Soviet Union, unless you're one smart hombre politically and you're articulate, and you're tough. I think Gorbachev meets that standard.

In addition to that, he happens to be young, so you're going to be dealing with him for a long time. He might deal with the next five Presidents of the United States. One of the things we have to make sure of—that's why I'm so worried about what's happening in this Hall of Congress—is that we overcome the lack of a bipartisan foreign policy. The worst thing that could happen with Gorbachev is for this Congress or this administration to get at loggerheads. Where you have a Democratic proposal and you have a Republican proposal on foreign policy on how to deal with the Soviets. Gorbachev can decide to sit and wait until the next policy comes along, because he's got time to do that. And I think that is a real danger.

And the other thing, anybody that sits down with Mr. Gorbachev better know what he's talking about. He better know the issues and better know them up and down. Gorbachev knows the issues, and he doesn't have to sit and turn to somebody to get an answer. He'll give you an answer. And I think if we are prepared to meet this guy, there are a lot of things that can happen.

There are things, for example, in Central America, that I think could change. But on the other hand, we can't continue to cause problems for them in certain areas of the world and expect them to stop causing problems for us. We have to sit down and work these things out.

I think, with this man, you can do that type of thing. I think if we can do that, Gorbachev's going to change that society radically. I think he's going to decentralize it; he's going to put the authority out in the regions and take the authority out of Moscow, and you'll see a different Soviet Union. I think he's going to open up on joint ventures.

You know, it's a mistake to think that Eastern Europe has no technology. They probably invent as many things as we do, but they don't know how to produce and how to market. It's just like England. England still probably comes up with more inventions than we do, but they don't know how to take it today and manufacture it competitively and market it in the world. The Soviets need joint ventures to help manufacture and market. That's why they need joint ventures. They're selling technology, as a matter of fact, in this country and have sold quite a bit of it. If you can open up the door to joint ventures, then you really get the exchange of people going back and forth, I think there's a great opportunity to seize.

Representative WYLIE. Gentlemen, thank you very, very much.

This has, indeed, been one of the most fascinating hearings of which this member has been a part. You are two very interesting and obviously brilliant gentlemen.

We thank you very much for your testimony today. I have a feeling that we will be asking to hear from you again, as these trade talks get underway and other talks at Geneva.

We had an indication that there would be 12 out of 20 members in and out today at sometime or another, but we didn't anticipate they would have all this debate on the debt ceiling increase and other committee meetings, but I will recommend that the members of this subcommittee—and as a matter of fact, all Members of Congress read the testimony today, because it has been very meaningful, at least to this member.

Again, thank you very much for being here and taking your time today.

The subcommittee stands adjourned.

[Whereupon, at 4:25 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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